



NOVEMBER / 1960

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**in this issue...**

- **Best Foot Forward.** Many companies are holding up a critical mirror to their corporate image because current economic and market trends indicate that it may be time for a change. In this month's opening article, J. GORDON LIPPINCOTT and WALTER P. MARGULIES discuss these trends and examine the questions that must enter into any management decision to alter—or attempt to strengthen—the corporate image.
- **Push-Button Management?** We've grown used to hearing that automation will soon make substantial changes in the composition of the work force, but most executives still believe that "no machine could ever do *my* job." Before the decade is over, however, we will have machines that are entirely capable of performing such basic management functions as "thinking" and "decision-making"—in many cases, better and faster than the managers themselves. For a view of the major changes ahead for the executive job in the next 25 years, see HERBERT A. SIMON's article, "Management by Machine" on page 12.
- **Foiling the Light-Fingered.** Fraud, embezzlement, pilfering, and other forms of employee dishonesty cost industry billions of dollars every year, says ROY C. TAYLOR, but this tremendous toll could be drastically reduced if management would establish some basic (and not too costly) internal controls. On page 20, he outlines the principal forms of employee fraud, their causes, and the steps management should take toward their cure.
- **It's in the Book.** Considering the sums of money that pass through the purchasing department every year, it's surprising that so few companies have taken the trouble to put purchasing policies and procedures in writing for the guidance of the staff and outside suppliers. In his article on page 29, SAMUEL C. FARMER discusses means of developing purchasing manuals that will bring order to often confusing and contradictory policies.

—THE EDITORS

NOVEMBER 1960  
Volume XLIX, No. 11

# THE MANAGEMENT REVIEW

## FEATURES

- 4 The Care and Grooming of the Corporate Image  
*By J. Gordon Lippincott and Walter P. Margulies*
- 12 Management by Machines:  
How Much and How Soon?  
*By Herbert A. Simon*
- 20 Preventive Medicine for Employee Dishonesty  
*By Roy C. Taylor*
- 29 Purchasing: The Case for Written Policies  
*By Samuel C. Farmer*

## BUSINESS DIGESTS OF THE MONTH

### *Trends and perspectives*

- 34 Business Gifts: Good, Bad—or Unavoidable?  
*(Printers' Ink)*
- 45 Whatsis-of-the-Month—The Boom in Mail Order Selling Clubs  
*(Newsweek)*
- 48 Consumers Union: U.S. Business' Most Skeptical Customer  
*(Fortune)*



### *Management policy and practice*

- 37 Seat-of-the-Pants Management Around the World  
(*Business Week*)
- 43 Sources of Economic Intelligence  
(*Business Record*)

### *Operating guides for executives*

- 40 Displaced Workers—A Management Responsibility?  
(*Factory*)
- 58 When You Plan Your New Plant  
(*Dun's Review and Modern Industry*)
- 61 Guiding Dealers to Better Profits  
(*Sales Management*)

### *What others are doing*

- 52 How Private Trucking Pays Off  
(*The Wall Street Journal*)
- 55 How Companies Use Credit  
(*Management Methods*)

## DEPARTMENTS

### *Also Recommended—page 64*

*Brief summaries of other timely articles*

### *Survey of Books for Executives—page 85*

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■ **J. Gordon Lippincott**  
and  
**Walter P. Margulies**  
*Lippincott & Margulies, Inc.*



THE CARE AND GROOMING OF

# The Corporate Image

THE DECADE OF THE SIXTIES promises to be one in which the corporate image—much discussed and argued over in the fifties—finally comes of age. With just about everybody in management now agreed on two heretofore debated items—that there *is* such a thing as a corporate image, and that promoting it can be not only desirable, but necessary—image programing is moving on to new, more scientific levels.

Many aspects of today's marketplace are contributing to the increased attention being paid to the corporate image. For one thing,

the accelerating pace of mergers and acquisitions makes corporate imagery of prime importance. What, for example, is the company that is known as a manufacturer of machinery going to do about its image when it takes over another company that makes chemicals? Are the two images to be fused together, shall a new one be created, or shall one predominate over the other?

The rate of new-product introduction is another stimulus to image-making. With U.S. firms expected to invest some \$5 billion in the next three years on new-product development, the relation of product imagery to corporate imagery becomes a key concern. Shall the new product be promoted under a corporate umbrella, or is it to create an independent image of its own?

The cost of communicating with the public, now rising in many consumer-goods industries at the rate twice that of sales and three times that of profits, forces even the most skeptical of managements to take a hard look at the concept of the corporate image. Can the promotion of a single, unified, forceful image, consistently expressed in all these communications, make them more effective and hence justify their cost?

Perhaps most urgent of all is the looming problem of the U.S. position in world trade. With the balance of trade now only \$1.1 billion in our favor, and with foreign competition posing a formidable threat both at home and abroad in many consumer and industrial goods industries, managements are suddenly looking to the grooming of their *world* corporate image. How many of our images are exportable? How appropriate are they in foreign lands where selling messages must be largely visual?

#### **WHO NEEDS AN IMAGE?**

If we view the corporate image in its broadest aspect—as the over-all reputation of a company—it would be quite correct to say that every company must have one. Certainly, every firm generates, through its many activities, an impression of itself on which rides its capacity to generate consumer loyalty and interest.

#### **Brand Images**

But when we talk specifically about concrete image-programing, which involves the tailoring of every aspect of corporate activity to

fit a precise company image, we must recognize the fact that many industries and many products do *not* lend themselves to the development of corporate imagery. In the cigarette industry, for example, the emphasis has been focused on brand imagery rather than corporate imagery. The name, the trademark, the packaging, and the advertising for each brand is specific, unique, and individual. Because it is important in marketing cigarettes to distinguish each brand as completely as possible from all others, the stress on brand imagery is undoubtedly appropriate to the industry. If the American Tobacco Company chose to call its brands "American Dual Filter," "American Regular," and "American King," it is unlikely that they could sell as well as have Herbert Tareyton, Lucky Strike, and Pall Mall.

### **Corporate Images**

In other fields, however, the corporate image is clearly an asset. It is no accident that the two major metal producers, United States Steel and Alcoa, have been leaders in formulating and carrying through concepts of corporate imagery; whole armies of diverse products and services must ride on the reputation of these basic producers. The long-term advantages of a well-thought-out and imaginatively promoted image are priceless to them, as they are to such major manufacturers as IBM and Du Pont. The prime service institutions—banks, insurance companies, and utilities—are also "naturals" for corporate-image programs, and we can expect more of them to exploit this advantage in the future.

General Electric built a great name that could endorse a broad spectrum of products and services. When it merged with Monowatt and Telechron, for example, these brand names were dropped (even though their equity was undoubtedly substantial) in the interests of hewing to the primary communications objective of building the GE corporate image. We may even see the famous brand name, Hotpoint, disappear too.

### **Dual Images**

In a third huge area, consumer goods, the picture is less well defined. Procter & Gamble built a vast and successful business primarily by promoting individual products—allowing brand imagery

to supersede corporate imagery. Thus they are able to bring out competing products, which rise or fall on their own names and reputations. On the other hand, such manufacturers as Heinz and Kraft are clearly committed to the corporate philosophy; every new product introduced by them has a built-in consumer loyalty worth hundreds of thousands of dollars in advance sales.

Companies in the automobile industry have attempted to follow a middle-of-the-road policy, promoting both corporate and brand images simultaneously. The advantages of this dual-image policy, if successful, are clearly enormous. But it is a moot point whether or not the automobile companies have succeeded in putting over their ambidextrous image. Are the new compacts, for example, clearly identified in the public mind with their makers?

In any case, only a limited number of companies can afford this dual image. Is it really feasible for corporations manufacturing not five or six, but hundreds of different products? Would it make sense in the food industry, for example, where a frozen pea is a frozen pea, and the major difference between one brand and another is the corporate name that stands behind it?

### **Choosing a Course**

These are the paths that are open to the corporation exploring the problem of brand imagery vs. corporate imagery. The solution must depend on management's analysis of its own peculiar situation and its answers to these key questions:

- Is our industry one in which corporate names play prime roles in product promotion?
- Is our corporate name appropriate to the image we want to create? Does it lend itself to an image program?
- Is our contemplated rate of new-product introduction sizable enough to make separate brand names appear impractical?
- Is our image built on brand or corporate reputation, and, if a change is considered, is it economically feasible?

### **WHAT MAKES A CORPORATE IMAGE?**

Suppose that management has decided that building up its corporate image is both desirable and practical. Just what steps can be taken?

There are as many aspects of the corporate image as there are activities in the corporation. A corporation presents one facet of its image through its advertising; it presents others through its publicity, its employment policies, its plants and offices, its place on the stock market, its manufacturing policies, and certainly its products. Images can be influenced by the tone of the receptionist's voice over the telephone or the attitude of the president's secretary, not to mention the behavior of the president himself. If all these factors coalesce into a uniform, unique, and recognizable picture of one corporation and no other, the result would be an ideal corporate image.

Unfortunately, however, no corporation has such a perfect image, and none is likely to achieve one, for the sound reason that many of the elements that make up the image are not controllable. Such things as the receptionist's attitude or the president's mood are as changeable as the weather; no one yet has been able to predict the movement of corporate stocks; and no one can control that most decisive manipulator of images, word-of-mouth. Public relations may be administered by shrewd and knowledgeable top corporate managers and consultants, but any of them will freely admit that chance, fortune, and plain luck invariably play a significant role in the outcome.

In so broadening and defining the corporate image, however, we run the danger of eliminating its active pursuit altogether. If just about every activity of the corporation helps form the image, and if many of these are uncontrollable, then what remains of the idea of deliberate image-programming?

#### **THE CONTROLLABLE ELEMENTS**

Fortunately, a good deal remains, for many elements of the image are completely controllable by management. These are the message-carriers—a wide variety of communications that are planned, conceived, and issued by the corporation itself to bring the desired image to the public.

These elements provide the framework of an image structure. A good way to find out how that framework is holding up is to conduct a periodic "image audit"—an analysis of these controllable elements and their functioning.



Such an audit focuses first on the three main elements that identify and proclaim the image: corporate nomenclature, corporate symbols, and corporate graphics.

### **Corporate Nomenclature**

Corporate nomenclature is the core of any image program. It includes the company name, division and subsidiary names, product and brand names. Few corporations maintain any consistency in nomenclature—yet without it, the image is bound to be diffused. How can the customer be impressed if he doesn't know what he is supposed to be impressed by?

The ideal corporate nomenclature uses a short, unique, and euphonic corporate name; shifts to generic names for divisions and subsidiaries; employs precise nomenclature for all corporate relationships, including groups, operations, plants, departments; creates brand names that are the same as, or related to, the corporate name; and unites them into a system that is effective for world-wide use.

### **Corporate Symbols**

Corporate symbols include trademarks, trade characters, and product symbols—shorthand messages for getting across both the purpose and character of the corporation. Are your symbols consistent? Is your trademark up-to-date? Does it express in vivid, meaningful terms the character of your company today? Is it used consistently? If you are entering new product fields or attempting to sell abroad, your corporate symbolism may need a complete overhaul.

### **Corporate Graphics**

Corporate graphics or, as the British call it, "house style," concerns the form or appearance of all corporate communications. Some corporations have a house style and some do not—and some of those that have it do not have the right style for their company or product. (What is gained by presenting oneself in modern, avant-garde style, for instance, if one is selling old-fashioned home-made cookies?) An example of a superior house style is that of the Olivetti Corporation, whose every visual contact with the public says "precise . . . efficient . . . contemporary."

With these three elements identified, the next step is to review their progress and presentation through all the controllable message-carriers. This means gathering together samples or photographs of the following:

- *Packaging*: Include everything, even tags, labels, and stickers.
- *Advertising and Promotion*: From newspaper and television ads to catalogs, give-aways, and gimmicks.
- *Signs*: At offices, plants, showrooms, and retail outlets.
- *Institutional literature*: Annual reports, legal documents, house organs, etc.
- *Stationery and forms*: All Letterheads, cards, order forms, invoices, statements, and press-release forms.
- *Transportation*: Whatever you own or control, including cars, trucks, aircraft, freight cars, and tank cars.
- *Building and equipment*: Plants, offices, retail outlets, showrooms.

These seven categories comprise the communications network through which an image flows—continuously and forcefully, or intermittently and awkwardly, depending on the image system imposed by corporate management.

#### **LONG-TERM BENEFITS**

The imposition of such a system requires setting the corporate communications household in good order, tailoring it, decorating it, and maintaining its essential individuality—a tall order, perhaps, but a necessary one for image-programing in the sixties. Like a single thread, such an image runs through all the corporate message-bearers, uniting them into a cohesive picture of a single entity, the corporation. Whether the corporation sells at home, abroad, or both, it provides a built-in framework of good will for introducing new products, sets the stage for stimulating the interest of potential investors, and maintains the unity of the expanding corporation.

The corporate image imposes order on what would otherwise be a chaotic and costly communications structure. Its benefits are not immediate—never expect an image program to provide a sudden spurt in lagging sales—but long-term, helping to achieve the modern goal of corporate activity: orderly growth and expansion. ♦



# MANAGEMENT BY MACHINE

*How much and how soon?*

■ **Herbert A. Simon**

*Professor, Administration*

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*Graduate School of Business Administration*

*Carnegie Institute of Technology*

**D**URING THE NEXT 25 YEARS, the job of the manager will undergo some major changes, as machines take over more and more of the activities that now seem too complex and "high-level" ever to yield to automation. The chances are strong that, even before this decade is over, machines will be able to perform any function in the organization—and this includes the "thinking" and "deciding" tasks that are the basis of the manager's job.

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This article is based on a chapter from *Management and Corporations 1985*, edited by Melvin Anshen and G. Leland Bach, which will be published later this month by McGraw-Hill Book Company, Inc.

This doesn't mean that executives will become obsolete. But the business organization in 1985 will be a highly automated man-machine system, and the nature of management will naturally be conditioned by the nature of the system being managed.

How will automation change the manager's job? Perhaps the best way to begin to answer this question is to take a closer look at factory and office automation and the changes they will bring about, for there are greater similarities than appear at first blush among the several areas of potential automation—blue-collar, clerical, and managerial.

First of all, we must realize that many of the initial effects of technological change are transitory—important enough to those directly involved at the time and place of change, but of no lasting significance to the society. This is not to discount the importance of these effects to the people they touch. But these transient problems, serious as they are, can be solved. In fact, the simplest moral reasoning leads to a general rule for their solution: The society that stands to benefit from the change should pay the major costs of introducing it and should compensate generously those who would otherwise be harmed by it. A discussion of the transient effects of change would have to center on ways of applying that rule.

But we are concerned with forecasting the long-run effects of change—picturing the society 25 years from now, after it has made these adjustments and settled down to its new equilibrium.

### **PREDICTING LONG-RUN EQUILIBRIUM**

To predict long-run equilibrium, one must identify two major aspects of the total situation: (1) the variables that will change autonomously and inexorably—the "first causes"; and (2) the constant, unchanging "givens" in the situation, to which the other variables must adjust themselves. These are the hammer and the anvil that beat out the shape of the future.

#### ***The Causes of Change***

The growth in human knowledge is the primary factor that will give the system its direction—in particular, that will fix the boundaries of the technologically feasible. The growth in real capital is the major secondary factor in change; within the realm of what

is technologically feasible, this will determine what is economical.

The crucial area of expansion of knowledge is not hard to predict, for the basic innovations—or at least a large part of them—have already occurred, and we are now rapidly exploiting them. The new knowledge consists in a fundamental understanding of the processes of thinking and learning or, to use a more neutral term, of complex information processing. We can now write programs for electronic computers that enable these devices to think and learn.

Closely allied to the development of complex information-processing techniques for general-purpose computers is the rapid advance in the technique of automating all sorts of production and clerical tasks. Putting these two lines of development together, we can predict that within the very near future we shall have the technical capability of substituting machines for any and all human functions in organizations. Within the same period, we shall have acquired an extensive and empirically tested theory of human cognitive processes and their interaction with human emotions, attitudes, and values.

To predict that we will have these technical capabilities says nothing of how we shall use them. Before we can forecast that, we must discuss the important invariants in the social system.

### ***The Invariants***

The changes that our new technical capability will bring about will be governed, particularly in the production sphere, by two major fixed factors in the society. Both of these have to do with the use of human resources for production.

1. Apart from transient effects of automation, the human resources of the society will be substantially fully employed. Full employment does not necessarily mean a forty-hour week, for the allocation of productive capacity between additional goods and services and additional leisure may continue to change as it has in the past. Full employment means that the opportunity to work will be available to virtually all adults in the society and that, through wages and other allocative devices, the product of the economy will be distributed widely among families.

2. The distribution of intelligence and ability in the society will be as it is now, although a substantially larger percentage of adults

(perhaps 50 per cent or more) will have completed college educations.

These assumptions—of capability of automation, accompanied by full employment and constancy in the quality of the human resources—provide us with a basis for characterizing the change. Technological unemployment is a transient phenomenon, but the pattern of occupations—the profile showing the relative distribution of employed persons among occupations—may be greatly changed. It is this change that will measure the organizational impact of technological change.

### COMPARATIVE ADVANTAGE

The change in the occupational profile depends on a well-known economic principle, the doctrine of comparative advantage. It may seem paradoxical to think that we can increase the productivity of mechanized techniques in all processes without displacing men somewhere. Won't a point be reached where men are less productive than machines in *all* processes, hence economically unemployable?

The paradox is dissolved by supplying a missing term. Whether man or machines will be employed in a particular process depends, not simply on their relative productivity in physical terms, but on their cost as well. And cost depends on price. Hence, as technology changes and machines become more productive, the prices of labor and capital will adjust themselves to clear the market of both. As much of each will be employed as offers itself at the market price, and the market price will be proportional to the marginal productivity of that factor. By the operation of the marketplace, manpower will flow to those processes in which its productivity is comparatively high relative to the productivity of machines; it will leave those processes in which its productivity is comparatively low. The comparison is not with the productivities of the past, but among the productivities in different processes with the currently available technology.

This doctrine of comparative advantage is clearly enough stated in *Wealth of Nations*, but contemporary discussion of technological change and automation still often falls into error through not applying it correctly and consistently.

Human employment will become smaller (relative to the total labor force) in those kinds of occupations and activities in which automatic devices have the greatest comparative advantage over

humans; human employment will become relatively greater in those occupations and activities in which automatic devices have the least comparative advantage.

Thus, if computers are a thousand times faster than bookkeepers in doing arithmetic, but only one hundred times faster than stenographers in taking dictation, we shall expect the number of stenographers to increase. Similarly, if computers are a hundred times faster than executives in making investment decisions, but only ten times faster in handling employee grievances, then computers will be employed in making investment decisions, while executives will be employed in handling grievances.

### **THE NEW TECHNOLOGY OF INFORMATION PROCESSING**

Those who distinguish the newer "automation" from the older "mechanization" stress our growing ability to replace with machines simple human perceiving, choosing, and manipulating processes.

The genuinely automatic factory—the workerless factory that can produce output and perhaps also, within limits, maintain and repair itself—will be technically feasible long before our twenty-five years have elapsed. From observation of changes going on in factories today, one might surmise that the typical factory of 1985 will not, however, be fully automatic. More likely it will have reached, say, the level of automaticity that has been attained in 1960 by the most modern oil refineries or power-generating stations.

The same kinds of technical developments that lead toward the automatic factory are bringing about an even more rapid revolution—and perhaps eventually a more complete one—in large-scale clerical operations. The very abstract nature of symbol-manipulation facilitates the design of equipment to do it, and the further automation of clerical work is impeded by fewer technical barriers than the further automation of factory production. We can conjecture that by 1985 the departments of a company concerned with major clerical functions—accounting, processing of customers' orders, inventory and production control, purchasing, and the like—will have reached an even higher level of automation than most factories.

Both the factory and the office, then, are rapidly becoming complex man-machine systems, with a very large amount of production or computing equipment per employee. The clerical department and



the factory will come more and more to resemble each other: One will present the picture of a small group of employees operating (perhaps it would be more accurate to say *collaborating with*) a large computing system; the other, the picture of a similar small group of employees operating a large production system.

It is important to remember that fewer employees in factory and office means fewer *per unit of output* and fewer *per unit of capital equipment*. It does not follow that there will be fewer *in total*. To predict the occupational profile that will result, we must look more closely at the prospective rates of automation in different occupations.

### MAN AS A PRODUCTION RESOURCE

The ordinary classification of occupations is basically an "end-use" classification—it indicates what social function is performed by each occupation. To understand automation, we must begin our classification of human activities at the other end: What basic capacities does the human organism bring to tasks?

Viewed as a resource in production, a man is a pair of eyes and ears, a brain, a mouth, a pair of hands, a pair of legs, and some muscles for applying force. Automation proceeds in two ways: (1) by providing mechanized means for performing some of the functions formerly performed by a man, and (2) by eliminating some of these functions. Moreover, the mechanized means that replace the man can be of a general-purpose character (like the man) or highly specialized.

Man's comparative advantage in energy production has already been greatly reduced in most situations, to the point where he is no longer a significant source of power in our economy. He has been supplanted also in performing many relatively simple and repetitive eye-brain-hand sequences. He has retained his greatest comparative advantage in: (1) the use of his brain as a flexible general-purpose problem-solving device, (2) the flexible use of his sensory organs and hands, and (3) the use of his legs, on rough terrain as well as smooth, to make this general-purpose sensing-thinking-manipulating system available wherever it is needed.

"Flexibility" and general-purpose applicability is the key to most spheres where the human has comparative advantage over the machine. This raises two questions:

1. What are the prospects for matching human flexibility in automatic devices?
2. What are the prospects for matching humans in particular activities by reducing the need for flexibility?

If we want an organism or mechanism to behave effectively in a complex and changing environment, we can design into it adaptive mechanisms that allow it to respond flexibly to the demands the environment places on it. Alternatively, we can try to simplify and stabilize the environment.

### **CONTROLLING THE ENVIRONMENT**

Homeostatic control of the environment (the environment, that is, of the individual worker or the individual machine) has played a tremendous role in the history of mechanization, and in the history of occupational specialization as well. The smooth road, for example, provides a constant environment for the vehicle—eliminating the advantages of flexible legs. The first step in every major manufacturing sequence (steel, textiles, wood products) reduces a highly variable natural substance (metallic ore, fiber, trees) to a far more homogeneous and constant material (pig iron, thread, boards, or pulp). All subsequent manufacturing processes are thus insulated from the variability of the natural material. The application of the principle of interchangeable parts performs precisely the same function for subsequent manufacturing steps.

This idea can also be applied to the newly mechanized data-processing area. One of the functions that machines perform badly at present is reading printed text. Because of the variability of such text, it would seem that the human eye is likely to retain for some time a distinct comparative advantage in handling it. But the wider the use of machines in data-processing, the more pains we will take to prepare the source data in a form that can be read easily by a machine. Thus, if scientific journals are to be read mostly by machines, and only small segments of their scanning presented to the human researchers, we shall not bother to translate manuscripts into linotype molds, molds into slugs, and slugs into patterns of ink on paper. We shall, in time, use the typewriter to prepare computer input—punched tape or cards, for example—and simply bypass the printed volume.

These considerations do not alter our earlier conclusion that humans are likely to retain their comparative advantage in activities that require sensory, manipulative, and motor flexibility (and, to a much lesser extent, problem-solving flexibility). They show, however, that we must be careful not to assume that the particular activities that now call for this flexibility will continue to do so.

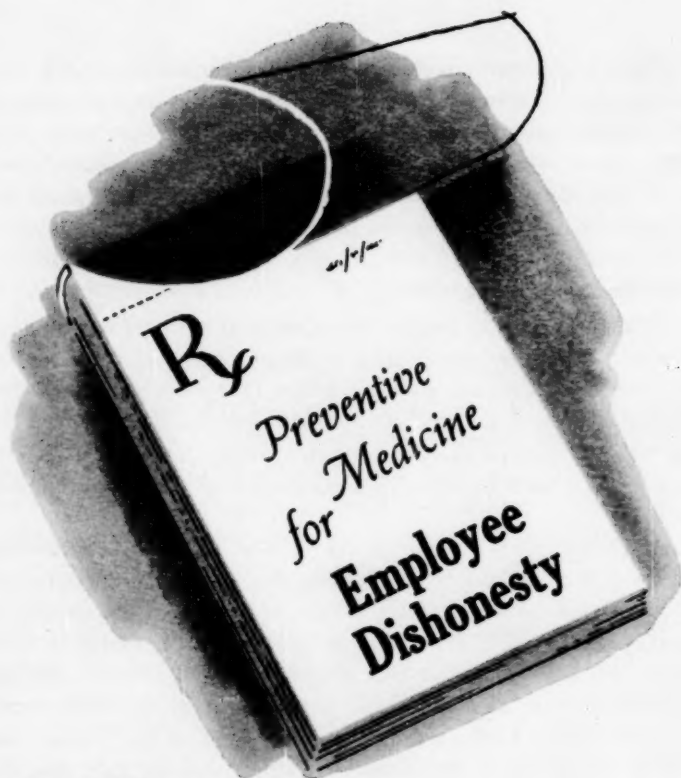
### ***Man as Man's Environment***

In most work situations, an important part of man's environment is man. This is, moreover, an exceedingly "rough" part of his environment. Interacting with his fellow man calls on his greatest flexibility, both in sensory activity and response. He must read the nuances of expressions, postures, intonations; he must take into account in numerous ways the individuality of the person opposite him.

It is often asserted, even by people who are quite sophisticated on the general subject of automation, that personal services cannot be automated—that a machine cannot acquire a bedside manner or produce the positive affect that is produced by a courteous sales clerk. Even if we accept that proposition, it does not settle the question of how much of man's environment in the highly automated factory or office will be man. For much of the interpersonal activity called for in organizations results from the fact that the basic blue-collar and clerical work is done by humans, who need supervision and direction.

We might suppose that supervisory work would decrease in the same proportion as the total number of employees, hence that automation would not affect the occupational profile in this respect. This may be true in first approximation, but it needs qualification. The amounts and types of supervision required by a work force depend on many things, including the extent to which the work pace is determined by men or by machines and the extent to which the work is prescheduled. Supervision of a machine-paced operation is a very different matter from supervision of an operation where the foreman is required to see that the workers maintain a "normal" pace—with or without incentive schemes. Similarly, a highly scheduled shop leaves room for much less "expediting" activity than

*(Continued on page 68)*



■ **Roy C. Taylor**  
*General Manager*  
*General Die Casters, Inc.*

**I**T WOULD BE DIFFICULT to find a businessman who would speak out in favor of theft, fraud, or embezzlement—but it isn't too difficult to find many who permit such dishonesty among their subordinates. In the continuing drive for production, sales, and direct cost reductions, the substantial waste resulting from employee dishonesty often evokes little interest among corporate executives—and when irregularities, great or small, pass unnoticed or uncorrected, theft is promoted rather than prevented.

Perhaps much of this management disinterest stems from ignorance of the extent of business dishonesty and its staggering cost to industry. It isn't generally recognized, for example, that each year

a million or more persons succumb to the temptation of embezzlement. The total cost of their depredations amounts to some \$2 million dollars every day, and other forms of fraud bring the total annual cost of employee dishonesty well into the billions. This is a substantial loss, and most of it could be prevented if management would exercise foresight and establish sensible controls to get the corporate house in order—and to keep it that way.

Crime in business has kept pace with the rise in crime in general. But with rare exceptions, the corporate criminal isn't a "criminal type"; he has no police record, and to all outward appearances he is an "average" human being. Except for a penchant for pilfering or a leaning toward larceny, he may well be a valued employee. His depredations probably started in a small way with some petty theft or dishonesty—perhaps in a moment of weakness, encouraged by a good chance of being able to get away without detection—and continued until he has become almost hopelessly enmeshed in habitual fraud or embezzlement.

The vast majority of men and women enter a business to make a living, not to see how much they can steal. But somewhere between record-clearing in the employment office and the moment stealing starts, need or greed rears its ugly head—and opportunity makes the dishonesty possible. It is well to remember that the vast majority of such cases have simple beginnings, and that dishonesty can be detected early or prevented entirely by a sensible and not-too-costly system of internal control.

### **FRAUD IN BUSINESS**

Fraud is deception with the object of gaining by another's loss. For many years, four principal deceptions have constituted fraud in business:

- Embezzlements and forgeries
- Shoplifting and pilfering
- Faked burglaries and hold-ups
- Graft, kick-backs, and pay-offs.

To these, we may add the less obvious and overt frauds that are also costly to industry:

- The thieving of time
- Lessened craftsmanship.

It is impossible to estimate the annual loss resulting from all these kinds of fraud with any accuracy, but it certainly reaches into the billions of dollars.

Embezzlements and forgeries are estimated to range between \$700 million and \$800 million a year—approximately \$2 million a day. Shoplifting has been declared by one state to be “a \$30 million industry,” and an estimate of a billion-dollar annual loss nationally is not at all unlikely. Losses from burglaries are even higher, and an increasing number of hold-ups are engineered by employees—through selling information or safe combinations, loaning keys, and otherwise making it convenient for illegal entry, or simply by faking the burglary in various ways without assistance from the outside.

Graft, kick-backs, and pay-offs are among the most insidious phases of fraud. The offenders are usually men in responsible positions, and their dishonesty is not only directly injurious to the company but can be seriously destructive to the morale of the majority of honest employees, who may be encouraged to their own acts of dishonesty by the example of those in positions of trust.

Losses that result from the thieving of time (for which increasingly higher wages or salaries are being paid) cannot be measured, but they are discernible in plant, office, sales, and other operations. Add to this the cost of sloppy craftsmanship (with resulting high scrap percentages and increased inspection and adjustment expense), and the result is a heavy and steadily increasing burden of cost that industry must bear.

Nor is the cost of employee dishonesty confined to the amount of money misappropriated or the value of the merchandise stolen. Among its less obvious costs are higher insurance rates, loss of efficiency in the organization, lowered morale, and the waste of human resources that result when otherwise honorable employees succumb to the temptation that will mark them forever as thieves unworthy of trust.

### **CAUSES OF DISHONESTY**

Probably the best way to approach the problem of employee dishonesty is to look at its basic causes. A recent study of more than 1,000 cases of business fraud in manufacturing companies, retail

stores, wholesale outlets, and other representative types of company disclosed three principal factors that cause employees to leave the straight and narrow:

1. Living beyond means, often with debts owed at the time of employment and increasing thereafter. No apparent effort to live within the wages or salary earned.

2. Gambling, high living, and questionable companions.

3. Extended illness of the principal or his family.

Of course, many culprits attribute their actions to other causes; the longer the period of stealing, the more pronounced is the attempt to justify those actions. In their efforts to alibi or excuse criminal accomplishments, offenders usually fall into one or more of these patterns:

- They criticize society for their predicament.
- They complain of employer mistreatment.
- They cite ungranted pay increases that were previously promised.
- They alibi irregularities as thoughtless and careless errors.
- They consider stealing insignificant to a prosperous business.
- They defend their acts as a justifiable form of profit-sharing.
- They cite corruption in high and low places to minimize their acts.

### THE NEED FOR ACTION

Such excuses cannot, of course, justify employee dishonesty, but in some cases they may provide clues to weaknesses in the organization or in employee-employer relations that could well be strengthened in order to make future occurrences less likely. In most cases, however, the most direct and effective action an employer can take to protect the company is to institute controls to discourage employee dishonesty before it starts.

It has been said that there's a little bit of larceny in all of us, and the reasons why employee dishonesty is not more widespread are probably (1) the fear of disclosure, (2) a strong will to resist temptation, or (3) the lack of favorable opportunities. There are times, however, when need or greed supplant all moral reasoning, and fraud will only be deterred by eliminating favorable opportunities that might exist: poor or unenforced protection controls, faulty



**Figure 1.**

**40 COMMON FORMS OF FRAUD**

1. Pilfering stamps.
2. Stealing merchandise, tools, supplies, and items of equipment.
3. Removing small amounts from cash funds and registers.
4. Failing to record sales of merchandise, and pocketing the cash.
5. Creating overages in cash funds and registers by under-recording.
6. Overloading expense accounts or diverting advances to personal use.
7. Lapping collections on customers' accounts.
8. Pocketing payments on customers' accounts, issuing receipts on scraps of paper or in self-designed receipt books.
9. Collecting an account, pocketing the money, and charging it off; collecting charged-off accounts and not reporting.
10. Charging customers' accounts with cash stolen.
11. Issuing credits for false customer claims and returns.
12. Failing to make bank deposits daily, or depositing only part of money.
13. Altering dates on deposit slips to cover stealing.
14. Making round sum deposits—attempting to catch up by end of month.
15. Carrying fictitious extra help on payrolls, or increasing rates or hours.
16. Carrying employees on payrolls beyond actual severance dates.
17. Falsifying additions on payrolls; withholding unclaimed wages.
18. Destroying, altering, or voiding cash sales tickets and pocketing the cash.
19. Withholding cash sales monies by using false charge accounts.
20. Recording unwarranted cash discounts.
21. Increasing amounts of petty-cash vouchers and/or totals in accounting for disbursements.
22. Using personal expenditure receipts to support false paid-out items.
23. Using carbon copies of previously used original vouchers, or using a properly approved voucher of the prior year by changing date.
24. Paying false invoices, either self-prepared or obtained through collusion with suppliers.
25. Increasing amounts of suppliers' invoices through collusion.
26. Charging personal purchases to company through misuse of purchase orders.
27. Billing stolen merchandise to fictitious accounts.
28. Shipping stolen merchandise to an employee or relative's home.
29. Falsifying inventories to cover thefts or delinquencies.
30. Seizing checks payable to the company or to suppliers.
31. Raising cancelled bank checks to agree with fictitious entries.
32. Inserting fictitious ledger sheets.
33. Causing erroneous footings of cash receipts and disbursements books.
34. Deliberately confusing postings to control and detail accounts.
35. Selling waste and scrap materials and pocketing proceeds.
36. "Selling" door keys or combination to safe or vault.
37. Creating credit balances on ledgers and converting to cash.
38. Falsifying bills of lading and splitting with carrier.
39. Obtaining blank checks (unprotected) and forging the signature.
40. Permitting special prices or privileges to customers, or granting business to favored suppliers, for "kickbacks."

housekeeping, uncorrected inefficiencies in operations, and other conditions that encourage employee dishonesty.

The first step in instituting effective controls is learning the types of stealing that are most likely to occur. In the study of 1,000 cases of employee dishonesty mentioned before, more than 200 different kinds of fraud were uncovered. Figure 1 (page 24) lists the 40 kinds that are most prevalent in a wide variety of businesses.

Many of the cases studied presented clear evidence of bad working habits and operational inefficiencies that, if corrected promptly, would probably have discouraged any attempt at stealing. Detecting the problem early is the key to preventing fraud.

In Figure 2 (page 26), some of the symptoms of employee dishonesty are outlined. These are danger signals that should warn the alert employer that trouble is brewing—or that it is already here.

#### **PREVENTIVE METHODS**

Internal controls are necessary to any well-regulated business. Not only do they serve to prevent fraud, but they can reveal many weaknesses in the company's operations: lack of definite corporate policies, inadequate methods of controlling expenses, failure to delegate responsibility and authority, and inefficient procedures.

The use of a written manual of internal controls is gaining favor with many managers. Such a manual serves many practical purposes. It can be, for example:

- A medium of training and developing personnel along practical controlling lines.
- An aid to line management in enforcing the procedures of controlling.
- A direct aid to corporate officers, audit committee members, directors, insurance companies, and fidelity bonding companies in appraising the adequacy of fraud-prevention measures and the amount of insurance coverage needed.
- An aid to internal auditing staffs in their work, particularly in surveys conducted for adherence to regulations, in studies of calculated risks, and in the elimination of unnecessary auditing.
- A direct aid to the outside auditors in planning and performing their work at the most reasonable cost to the client.

- A possible opportunity to disclose weaknesses in systems, questionable expense control, poor service to customers, careless operating, etc.

Control manuals can take many forms. They can be, for example, a part of the systems-and-procedures manual, a separate, permanent manual, or a department manager manual. For both effectiveness and economy, many companies favor the last kind, in which each manager submits annually, or as required, the specific internal controls used in his department to cover the basic operations. After they are reviewed, appraised, and approved by top management, they are incorporated into the over-all company manual.

The manager of a production department, for example, may find his greatest problems centering on pilfered hand tools, small equipment, costly shop supplies, valuable metals, and even finished products. In this case, he will have to institute or strengthen controls

**Figure 2**

### **20 DANGER SIGNALS OF EMBEZZLEMENT**

1. Borrowing small amounts from fellow employees.
2. Placing personal checks in change funds—undated, postdated, and past dated—or requesting others to “hold” checks.
3. Personal checks cashed and returned for irregular reasons.
4. Collectors or creditors appearing at the place of business, and excessive use of telephone to “stall off” creditors.
5. Placing unauthorized I.O.U.’s in change funds, or prevailing on others in authority to accept I.O.U.’s for small, short-term loans.
6. Inclination toward covering up inefficiencies or “plugging” figures.
7. Pronounced criticism of others, endeavoring to divert suspicion.
8. Replying with stilted and unreasonable explanations on any investigation.
9. Gambling in any form, beyond ability to stand loss.
10. Excessive drinking, nightclubbing, or associating with questionable characters.
11. Buying or otherwise acquiring through “business” channels expensive automobiles and extravagant household furnishings.
12. Explaining a higher standard of living as money left from an estate—often warranting a confidential investigation.
13. Getting annoyed at reasonable questioning.
14. Refusing to leave custody of records during the day; working overtime regularly.
15. Refusing to take vacations for fear of detection; shunning promotions.
16. Constant association with, and entertainment by, a member of a supplier’s staff.
17. Carrying an unusually large bank balance, or heavy buying of securities.
18. Extended illness of self or in family, usually without a plan of debt liquidation.
19. Bragging about exploits, and/or carrying unusual amounts of money.
20. Rewriting records under the guise of neatness in presentation.

in the vulnerable areas of his department, taking into consideration such factors as these:

- Capabilities and alertness of the guard force
- Machinery and equipment accounting
- Tool crib and supplies handling
- Central lock-and-key system control
- Package and vehicle pass control
- Inspection of vehicles
- Receiving and recording
- Scrap and salvage accounting and disposal
- Finished goods accounting
- Inventory taking

To obtain results, of course, it is not enough to institute controls; constant policing is also necessary. In a smaller business, this is often the responsibility of a junior executive; in a larger company, staff accountants can conduct an effective review of internal controls in the course of their regular audits. If the company does not maintain an internal staff, public accountants can often assist in determining weaknesses and advise management about ways of correcting inefficiencies and irregularities.

### **GIFTS AND GRAFT**

One of the most difficult kinds of fraud to deal with is graft. In one of its many forms, it is most frequently found in higher-level jobs, among men who are in positions of trust in the company. Most executives associate graft, kick-backs, and payoffs with purchasing activities, but these forms of corruption are not unknown in various other areas of operations—advertising, capital expenditures, contract services, selling, engineering, employment, insurance, and many more.

It isn't always easy to determine where gifts end and graft begins, since, in addition to cash, gifts can take such various forms as stocks and bonds, furniture, appliances, all kinds of wearable, eatable, or drinkable items, paid vacations, and lavish entertainment. The distinction between gift and graft can be made, however, and some realistic position should be taken and publicized. Some companies, for example, consider it acceptable for their employees to receive gifts as long as they are no more valuable than those distributed by

their own sales departments. Others set a specific dollar limit, or specifically define gifts in other ways. And, of course, a number of companies forbid their employees to accept anything at all, regardless of value, and make their policy known to suppliers and others who might be considering making gifts.

To combat graft, kick-backs, and payoffs effectively, management must formulate clear, specific policies, make them known, insure that they are observed, and deal firmly with those who violate them. In many cases, merely publicizing the policies and management's intention to enforce them discourages graft before it can start; in at least one nationally known company, would-be gift-givers realize that the company's executives and employees are not approachable, because of its reputation for dealing severely with infractions of its policies.

#### **A NEEDLESS WASTE**

Fraud is costing U.S. business more than it can afford—both in cash and in the loss of valuable human assets. Many losses are never discovered, others are only partially disclosed, and some are allowed to pass without their fraudulent nature being recognized. In addition, an employee engaged in stealing is obviously unable to give his employer the value of his salary or wage. And when fraud comes to light, there is the cost of investigation; the slowing down of some internal activities until the case is completed; the loss of a trained man, and the cost of developing a successor; the effect on the morale of other employees, especially where suspicion is directed at honest and valued workers; unfavorable publicity; the possible increase in insurance premiums; the disturbance to stockholders and directors when the effect on the company's balance sheet is substantial; and, when customers' accounts are involved, loss of confidence in the company.

Businessmen can well afford to look around and see whether their houses are in order, to correct what might be wrong, to establish effective controls, and to look to employees for honesty and fair dealing. The cost of preventive measures is small compared with the possible losses that can be sustained, and any expenditures will easily prove to be worthwhile in protecting the interests of the company, the employee, and ultimately, the consumer. ♦

# **PURCHASING:**

## *the case for written policies*



■ **Samuel C. Farmer**

*Program Director*

*AMA Manufacturing Division*

**A recent survey shows that only one company in four today has written purchasing policies. This article tells why—and how—they should be developed . . .**

**W**ITHIN THE PAST FEW DECADES it has become axiomatic that company policies must be put into writing, and many companies have not only spelled out their basic management and personnel policies, but have issued detailed manuals covering a number of other key management functions. Yet, surprisingly, purchasing seems to be an exception: A recent survey covering more than 600 companies showed that fully 77 per cent had no written purchasing policies of any kind. The companies surveyed represented a good cross-section of all types of industries, large and small, engaged in fabricating, processing, or service where purchasing was an important factor.

Assuming that it is desirable to put purchasing policies into writing—and this would seem unquestionable in view of the tremendous sums of money involved in the purchasing function, its broad range of contacts, and its key role in keeping company supply

lines filled—what types of written purchasing policy manuals should a company consider issuing, and how should it go about developing them?

### INTERNAL AND EXTERNAL MANUALS

Purchasing manuals generally fall in two categories: the external, "welcome" type, which is distributed through vendors, and the "procedural" kind, used for internal control.

The 16-page "Vendor's Guide" distributed by the Greenwich Engineering Division of American Machine and Foundry Company is perhaps typical of the external type of purchasing manual. In addition to information about the company's procurement policies, the names of the purchasing agents and buyers, and the commodities the company purchases, it contains other information that might be of use to salesmen—including, for example, a map of the area, turnpike and route information, addresses and telephone numbers of hotels and motels, and railroad and taxi information. Such material is clearly designed to fulfill the stated purpose of the manual—to insure that "the salesman's visit will be an enjoyable one and that it will result in mutual benefits between your company and ours."

The internal procedural manual should contain a detailed and thorough review of all operating systems and methods governing conduct between all departments in the company. Compiling such a reference source requires a great deal of work; it may take years to complete it, and maintaining it up-to-date is a continuing task. A look at the contents of the manual issued by the Dorr-Oliver Company provides a good idea of the type of material usually contained in a procedural manual:

Organization of the purchasing divisions

Responsibilities—generally stated

Information on:

Authority for requisitioning

Expediting

Coordination with other  
companies

Quotations

Blanket orders and local  
purchase orders

Product testing

Cash discounts

Return of material

Small claims

Rush orders

Standardization

Acceptance of gifts



Inventory policy  
Speculative buying  
Reciprocity

Plant visits  
Personal purchases  
Government regulations

Principals and standards of purchasing practice (advocated by the National Association of Purchasing Agents)

The procedural manual is usually quite large, and it contains a great deal of information on internal procedures that would be of little value to a vendor. For this reason, it is seldom used outside the company, although it may, in a condensed form, be the basis of the company's "welcome" manual.

### THE EXTERNAL MANUAL

The advantages of issuing a welcoming manual, in terms of facilitating the purchasing procedure, are readily apparent. When a company has not set forth its policies and procedures, it is not uncommon to hear vendors complain of confusion and frustration. In the words of the owner of a small manufacturing company: "Much as I would like to have their business, which I need desperately at this time, I just cannot afford to call on their divisions. Although they have requested information on my product, repeated efforts to find who has authority to commit the company or negotiate a contract have been a complete waste of my time and money." In this company, there was no coordinated purchasing policy to resolve the questions of which department in the company had authority to discuss costs, length of contracts, or the amount of commitment, nor was there any coordination between divisions working on comparable items. All the vendor could do was wait until the interested companies came to him. Obviously, a clear, written policy on this point would have saved many wasted hours and days by clarifying such minor details as whom to see, when he is available, how much authority he has, and what procedures should be followed.

Not to be ignored is a secondary advantage that results when the vendor takes pride in doing business with a company. The purchasing department frequently has more contact with the outside than does any other area of the business, including the sales department, and there is no doubt that a considerable indirect sales benefit is realized when vendors consider a firm to be "a good company to do business with." Both reputation and sales may be at

stake when salesmen who have dealt with the company are asked for their confidential opinions—and their recommendations will be based primarily on their experiences with the company's purchasing department.

Vendor manuals can also be extremely useful in clarifying company policy on sensitive subjects, for the benefit of both vendors and all parts of the organization. Many companies are preventing misunderstanding and untoward occurrences by stating their policies in these areas in no uncertain terms and publicizing them in the purchasing welcome manual. Here, for example, are some statements that deal with two possibly sensitive areas—reciprocity and gift-giving.

#### RECIPROCITY:

Reciprocity is the practice of giving preference to suppliers who are also our customers. When our customers offer us quality, service, and price offered by non-customer suppliers, we prefer to do business with our customers; however, reciprocity will be considered only when all these factors are equal. Our buying goal is maximum value, and we will not depart from the principles of good purchasing. (Dorr-Oliver)

\* \* \*

When our customers offer us quality, service, and price offered by non-customer suppliers, we give preference to our customers. However, reciprocity is to be considered only when all these factors are equal. Reciprocity can be beneficial to the company if judiciously used. The abuse of this practice must be avoided. Our buying goal is to obtain maximum value with no departure from the principles of efficient purchasing. Any important question regarding trade relations shall be referred to the procurement director. (The Raytheon Manufacturing Company)

#### GIFT-GIVING AND CONFLICT OF INTEREST:

AMF has an established policy that no company employee may accept a gift other than that which is widely distributed as advertising matter. You are respectfully requested to observe this policy to avoid embarrassment to Greenwich Engineering employees. (Greenwich Engineering Division, American Machine & Foundry Company)

\* \* \*

A provision for immediate discharge contained in the company disciplinary code emphasizes that transactions between representatives of this company and the suppliers or other organizations which do business with this company must at all times be conducted in a manner that is beyond criticism. The reimbursement provisions of prime contracts entered into by the company with the government and the provisions of various federal and state laws and regulations place further emphasis on the conduct of employees within the

purchasing department. Improper conduct by any supplier or by any representative of the company who deals with or influences selection of any supplier, shall, when brought to the attention of a representative of the purchasing department, be promptly reported to the material director. Such improper conduct includes:

1. The offer or acceptance of cash or the equivalent at any time or under any circumstances.
2. Any other gift or gratuity, when the circumstances surrounding the offer or acceptance of such gift or gratuity suggest improper conduct by the individual or supplier concerned.
3. Any interest, direct or indirect, in any organization which is in any way engaged in or affected by contracts or orders placed by the company, other than ownership of investment stock in publicly held corporations. (Republic Aviation)

\* \* \*

We will avoid even the appearance of commercial bribery by discouraging, in every way possible, the presentation of gifts, tickets, or other favors. Association with suppliers' representatives at meals or other occasions is desirable when it is mutually convenient, provided we are able to act as host on occasion as well as guest.

Under no circumstances will purchasing personnel make any purchasing commitment with relatives or sources with which the individual making the commitment has more than an incidental financial interest. In the event that the best interests of the corporation are not served by adhering to this policy, the person involved will disqualify himself from the matter, referring it to his immediate supervisor and the concerned general purchasing agent. (Kaiser Aluminum and Chemical Corporation)

### THE PROCEDURAL MANUAL

One of the advantages of the internal procedural manual is that it provides a reliable guide that auditors can use to insure that purchasing operations in all departments of the company are performed according to established policy.

In one company, for example, a recent audit uncovered such weaknesses as these in the organization's purchasing operations:

1. Job descriptions inconsistent with defined policy.
2. Multiple bidding neglected in selecting sources of supply, without adequate reasons.
3. Contracts for engineering services completed without legal approval.
4. Purchase orders issued against outdated requisitions.
5. Competitive quotations not obtained.

(Continued on page 81)

## BUSINESS GIFTS: Good, Bad—or Unavoidable?

*Condensed from Printers' Ink*

**B**V NOW, many corporations are well into their Christmas gift-shopping programs. Purchasing agents have scanned catalogues, have consulted department heads to learn their needs, and have started ordering the whiskey, perfume, ties, and cheeses that are the raw material of the annual Yuletide ritual.

But, many executives are aware, the ritual now has a different flavor. For the Bernard Goldfine-Sherman Adams disclosures, Congressional investigations into payola, and Harris Committee findings started a change in attitude and practice. Congress recently passed a law authorizing an investigation into corporate gift-giving, and in June a proposal came before the Senate to limit tax-deductible gifts to those worth ten dollars or less.

These activities have had several effects. One is a decision by some companies to prohibit their employees from accepting any gifts at all or, in some cases, gifts of more than nomi-

nal value. Some businesses have stopped giving gifts to customers. And others have replaced gifts to individuals with donations to charity in the name of business friends.

Nevertheless, corporate gift-giving will come near an estimated billion dollars this year, with an average cost per gift around \$7. Why do companies give gifts? The most frequently heard arguments in favor of the practice are three:

1. Gifts are a highly effective way to establish good will with a customer.
2. They are used as tokens of appreciation for business received.
3. Gift-giving at Christmas is a good form of advertising.

A reason more to the point, however, may be the one expressed by a purchasing agent, who said, "We give gifts because our competitors do. It's a nuisance, but a necessary one."

Whatever their reasons for gift-giving, many executives are all for continuing the custom. Said one: "It's the worst possible kind of public

*Printers' Ink (September 2, 1960), © 1960 by Printers' Ink Publishing Company, Inc.*

relations for a company to announce that its employees cannot accept gifts. Sounds like we don't trust them. And in cases where the company continues to give gifts to its own customers, it becomes laughable." One supplier cited some companies that had cut out gift-giving but had been "forced" to go back to it "by popular demand." Commented another: "I resent anyone sending a check to charity in my name. Business relations should not be brought into this kind of thing."

How does a corporate gift-buyer find the middle ground between the lush gift that has caused so much public eyebrow-raising and the gift with so little intrinsic value that it would stir up more ill will than good will in the mind of the recipient? How does a company without a gift-giving program initiate one, or how does a firm with an ailing program doctor it? Executives queried by *Printers' Ink* say there is a great deal of help available:

Many of the nearly 200 advertising specialty houses will provide counseling service to their customers—either through gift specialists or trained salesmen. In some instances, they will also handle the wrapping and shipping of the gifts.

Those who doubt their own judgment can use the increasingly popular booklets that allow a gift recipient to make his own choice, usually from a list of ten items or more. All the donor need figure out is how much he wants to spend. Companies providing this service usually have booklets in different price categories ranging from about \$5 to \$50.

The Business Goodwill Advisory Council last year made available a

pamphlet, "Business Gifts at Christmas, Good or Bad," offering rules and advice to guide the selection and distribution of business gifts. For those who question whether their companies should begin or continue gift-giving, the Advertising Specialty National Assn.'s pamphlet, "Santa Claus in Business—Is He There to Stay?" offers a discussion of the ethics of the practice.

Though suppliers and buyers feel business-gift buying will probably be curtailed somewhat because of unfavorable publicity, the majority of givers are expected to be at their usual stations this Christmas. One of these donors—a division sales and distribution vice president of a major chemical company—has conducted what he feels is a successful and tasteful gift-giving program over the past ten years. The 90 per cent response in letters and telephone calls that he gets from customers who receive gifts attests to this—as does the fact that his company does not plan to cut down on the program this year.

Mr. S. (he prefers to remain anonymous) says his company looks on gift-giving as "a good-will gesture," yet admits his company started the practice "because our competitors do it." But he maintains that even if his competitors were to drop their gift-giving he would still continue it; the gift, he feels, is the only "personal" contact he has with many of his customers during the year.

Mr. S. has about 150 names on his gift list—fifty accounts, each with about three people to whom gifts are sent. In addition, his division sends a birthday gift to each of these people

—which, he feels, has great impact since there is little competition. "If I could," he says, "I would like to cut out Christmas giving entirely and spend more for birthday gifts."

Mr. S. spends "about \$14" apiece for each Christmas gift—the amount has remained the same for several years. Since most of the customers' orders are in the thousands of dollars, he feels this amount could not influence any buying decisions, yet it leaves him enough leeway to buy an item of interest and value. He gives the same gift to all the division's customers, millionaire company-owners and \$10,000-a-year salesmen alike. He feels strongly that more harm than good comes from linking the value of the gift to the position of the recipient. "We cut out our A and B lists a while ago," he says. "A salesman today may end up running the whole show tomorrow, and you just shouldn't risk offending anybody."

During the past few years—following what appears to be a general trend—Mr. S. has selected items for the home. He strives for year-to-year continuity in his gift-giving. For exam-

ple, he gave a mahogany salad bowl a few years ago and followed it the next year with a salt shaker and pepper grinder in the same wood. This Christmas, he plans to give six matching individual salad bowls to complete the set. Where possible, he sends the gifts to the customer's home: "It's better that way." They are mailed out to arrive between December 10 and 15, ahead of the Christmas rush.

From his own gift-buying experience, Mr. S. offers these hints to others faced with the task:

- Don't be too extravagant—or, conversely, too cheap—in your gift selection. Consider the people who will be receiving the gifts and strike the best average.

- Look for the unusual, but practical, gift—preferably something for the home. Unless you know the person well, steer clear of a personal item.

- Give something that will last all year. Fancy bird's-egg *hors d'oeuvres* will cause a momentary stir but will most likely be forgotten once they are consumed. ♦

## Two For One

TWO PENSION PLANS for one company is a growing practice among many corporations, reports the consulting actuary firm of Kwasha, Lipton & Clark in its newsletter. Reason: Unions now insist on participating in the management of pension funds provided for union members. If a corporation has a single pension plan covering both union and exempt employees, then the pensions of exempt personnel will fall under partial control of the labor organization.

In addition, the assets in the fund can become public knowledge, under the Federal Disclosure Law. The average assets per man in an overall plan may be high because of the proportionately higher benefits for high-salaried employees, and this average may lead to higher pension proposals on the part of the union.



## Seat-of-the-Pants Management Around the World

*Condensed from Business Week*

**O**NLY 12 PER CENT of the world's managers know what they're doing. The rest are still managing by intuition, and most of these are unaware of the advantages of scientific management.

This is one of the conclusions reached by John Shallenberger after a two-year series of interviews with almost 5,000 managers all over the world. The controversial Shallenberger Report—distributed recently by the International Committee for Scientific Management to its members—is a detailed study of modern management practice in each of 60 of the nations he visited, a commentary on each country's managers, and a comparison of the efforts of government and private management groups in each nation to improve the

quality of its management. Some notion of the range and character of the information he has assembled for the first time may be gleaned from these excerpts:

**Australia.** Australian managers today are choosing among the latest and best U.S. and English management skills. Management consulting is well accepted, both in business and in some sectors of state and federal government.

**Austria.** Organization manuals and clear definitions of authority are virtually unknown. There is little planning for the replacement of present managers. Though management education emphasizes bookkeeping and the preparation of financial statements, cost accounting is still a great need. One company, for example,

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after filling a \$4 million order, couldn't determine whether it had made or lost money on the job.

*Belgium.* Long exposure to foreign management methods has placed Belgium among the leaders in the management movement. The country boasts one of the world's earliest (1926) independent, privately supported management associations.

*Congo.* Vigorous attempts to raise the skills of native workers have been discouraging. But Belgian and Congo-owned companies make wide use of scientific production management, and at least one mining company has gone in for operations research.

*Denmark.* There are about 200 full-time consultants; some Danish managers feel there should be still more. While scientific management has reached an advanced stage in some companies, many older managers still resist change and rank intuition ahead of knowledge.

*German Federal Republic (West Germany).* There is a dearth of qualified middle managers. Most managers feel overburdened; some complain they can't find capable men to accept responsibility. Management associations of all sizes and types have multiplied. Management training places great emphasis on psychology and the behavioral sciences.

*Israel.* Management talent is spread thin and some is being recruited abroad. This raises the problem of superimposing outsiders on the existing staff. Some old-time managers are trying to draw from management's "new bag of tricks"; occasionally, therefore, a plant becomes a mish-mash of new ideas not fully understood.

*Portugal.* Remarkably few businessmen are aware of the concept of scientific management. The biggest single force for improved management has been the aggressive sales efforts of foreign business-machine manufacturers. But the successful use of modern office machines has led some managers to believe that good financial procedures and controls are all there is to scientific management.

*United States.* The world's largest management associations, the most advanced schools of business administration, and the largest variety of courses and seminars for practicing managers have been developed in the U.S. But most U.S. managers still prefer to manage by intuition and have yet to accept management fundamentals in their work. The U.S. produces the largest volume of current writing on management, but some of the U.S. texts have won far more acceptance abroad than here. Foundations in the U.S. do not normally conduct management research and training, but some contribute financially to it. The Ford Foundation has become the world's leading private contributor to management improvement programs.

Shallenberger — a business executive with extensive background in management consulting and research — has kept his personal impressions and conclusions separate from the official body of his report. But his own views of what he has seen and heard are essential to any clear understanding of the study.

The author estimates that about 85 million people throughout the world are managing some sort of group activity, industrial or otherwise.

Some 36 million of these managers are citizens of the Committee's 29 member nations. But not more than six million of this group—roughly 16 per cent—participate in the management movement. He doubts, therefore, that even ten million of the world's managers have accepted and applied scientific management to any large degree.

Nonetheless, Shallenberger believes that managers are embracing modern management at an increasingly rapid rate. And the rate is higher in those countries that already are furthest advanced. Probable result: an increasing gap between the haves and have-nots in management knowledge.

Every country that admits its need for better management, Shallenberger reports, explains that its slow development of professional management has resulted mainly from the predominance of small companies, owner-managers who founded their own companies or inherited their jobs, and subordinates held to be incapable of handling responsibilities. Many countries believe that they alone have these conditions, and that U.S. companies, on the contrary, are all big, prosperous, and well-managed.

Shallenberger finds more similarities than differences among managers

of the countries he studied because, he believes, of the similar needs and problems arising from organized business. These similarities suggest to him three major concerns shared by the world's managers: human relations, decision-making, and division of authority. Of these, he feels, the hardest to deal with will remain division of authority; managers simply won't trust their subordinates. What's more, he suspects, managers want to keep the prestige and authority—"the fun of the game"—to themselves. In fact, one important factor that has contributed to the slow acceptance of modern management methods by managers everywhere is the fear that scientific management will reduce the manager's power. Why should a manager making a good profit change his ways on the mere promise that he will win higher profits or that he will achieve other goals?

As a result of his extensive studies, Shallenberger makes several recommendations. One is a code of ethical standards for all managers. Another is the establishment of a "Hippocratic Oath" for managers, to help them express what he feels is the "deep-rooted desire of most managers to serve mankind." ♦

### *Tomorrow's Investors*

ALMOST 13 MILLION ADULTS are now on the "threshold of investing," reports the New York Stock Exchange. This many people either considered investing during the past year or reported they would invest extra capital in common stocks instead of other kinds of investments.

Added to the current total of 12.5 million individual shareholders, this group would bring the number to 25 million investors in the near future. But the potential is even greater: An additional 22.5 million people last year expressed an "interest" in investing and sought more information from the Exchange on various investment techniques.

# DISPLACED WORKERS—

## A Management Responsibility?

By W. A. Bussard

*Condensed from Factory*

**A** MAJOR PART of management's job is saving labor. It may involve a new machine, a new material for simplifying production, or a more efficient work procedure. The primary goal is the same: to remain competitive by reducing the high cost of labor.

But the problem doesn't end there. For, says H. B. Maynard, management consultant, "If a labor-saving move is planned, management must also plan what is to be done with the saved labor." If it doesn't, he believes, government and unions—backed by public demand—will step in to try to solve the problems of unemployment and local distress. The final solution may be taken out of management's hands altogether, and this in itself may not be desirable.

Consider, too, management's possible social responsibilities. For example, a company, after encouraging a machinist to develop specialized skills in a new industry, may replace him with a tape-controlled machine. Is management justified in turning him out—or demoting him to a lower paying job—because there are no similar jobs that require his skilled services? Or should it feel some obli-

gation to help him, after channeling his efforts so closely over the years to improve company production?

Several companies believe that they must be concerned with the men they displace, and these firms have taken constructive, aggressive steps to solve the problem. One is E. I. du Pont de Nemours & Co., which, several years ago, shut down an 89-year-old cellulose nitrate plant in Arlington, New Jersey. There were several reasons for the plant shutdown: The old method of production could no longer compete; the product made there was being replaced by newer materials; costs of modernizing the old plant were too high; and there was no room in the surrounding suburban area to expand the plant. Du Pont's hard decision: Sell the plant.

Du Pont's first step in closing the plant was to notify employees as far in advance as possible. The company gave them two-years' notice and sent letters to them explaining the reasons and the plans. Then the news was released to the newspapers. The mayor and local service clubs (such as Kiwanis and Rotary) were notified by personal visits.

*Factory (September 1960), © 1960 by McGraw-Hill Publishing Company, Inc.*

The company then established a task force to help employees find new jobs. Letters listing employees' qualifications were sent to 150 employers in the area, and interviews for employees were arranged at the plant during working hours. The plan was successful: Of the 635 employees not retired, 90 per cent found other jobs within the two-year period.

Du Pont gave severance pay—even if the laid-off employee walked into a new job across the street. The amount was based on one week's pay for each year of service, with a minimum of four weeks' pay.

The company also gave vested interest in the pension plan to those employees not eligible for regular pension during the shutdown period. To the remaining workers with seniority—those within 10 years of eligibility and with 15 years or more of service—the company offered a choice of an immediate, reduced pension or a somewhat larger pension at age 65.

The reaction to Du Pont's step-by-step shutdown was favorable: Benefits were regarded as generous by employees, the effect on the local community was good, and all employees appreciated the company's help in finding new employment.

Two other companies that have demonstrated a progressive approach to labor displacement are Haloid Xerox (Rochester, N.Y.) and Socony Mobil Oil Company. To aid long-service workers who were being replaced by mechanization of photographic production, Haloid started a training course last December. For six weeks, selected employees received their average pay while taking a full-time course in machining and me-

chanical assembly. After completing the course, they were transferred to jobs in another manufacturing department working on production machines. The full cost for each man's training was about \$1,900.

When Socony Mobil closed down a 78-year-old refinery in Olean, N.Y., to start a new one in the Pacific Northwest, it offered to move all employees lock, stock, and barrel across the continent. Of the 350 eligible workers, 150 finally made the decision to move. Those who remained received generous severance benefits, plus help in finding new jobs.

Unfortunately, few companies have applied this type of planning. Either they have not learned to—or they do not choose to. One expression of this latter viewpoint is the statement by the manager of one plant about to relocate and lay off most of its work force:

"Management bears no responsibility for solving labor dislocations so long as the company lives up to the labor union contract. It is the responsibility of the government to care for these people. Unemployment insurance and welfare agencies for that purpose are supported, at least in part, by the companies involved. Our displaced workers will get no special consideration at our other shops, or at the new plant." A more typical attitude is: "The new machine permits two men to do the work of four. The two men saved have lots of seniority. They'll both bump to a decent job and a couple of short-timers will be dropped from the payroll."

This viewpoint obscures one fact: Workers are unqualifiedly afraid of

labor savings. They desperately want management to worry about employee security and to explore every possibility of avoiding lay-offs. Here are some solutions to the problems of displacement — short-range solutions, to help solve today's problems, and long-range ones, to help a company ease the way for technological improvements not yet conceived.

**Short-range solutions:** You can integrate labor-displacement planning with engineering development. You can plan for the relocation of displaced employees at the same time you think of machinery specifications and plant layout.

You can retrain employees to qualify them for new jobs on the same level as their old ones—even jobs in other divisions, like sales.

You can pace hiring to allow for the absorption of displaced people. Personnel planning can be integrated with inventory and schedule planning.

You can set up a job-replacement service, staffed by your own personnel

people. You can enlist the help of other companies in the area.

You can give severance pay to displaced workers to help them keep their homes on an even keel while they're finding other jobs.

**Long-range solutions:** You might plan to expand vertically or horizontally. You could change your make-buy practices, or develop or take on new products to absorb displacement of employees on regular products. Manufacturing managers can help marketing managers by re-evaluating facilities and equipment in terms of new-product potential.

You can support industrial development activities. All states and many regions and communities have organizations attempting to attract new industries. Cooperation with these groups may help you steer displaced employees to new jobs.

You can provide an early retirement option for those employees who can and will take it. You may have to revise your pension plan to do this. ♦

## *Portrait of Success*

WHAT DOES a well-managed corporation look like? According to a survey recently conducted by *Dun's Review* among members of its Presidents' Panel, the ideal well-managed firm has a top management that is strong on long-range planning. It has management in depth, a well-defined organizational structure, with clear delegation of authority and responsibility.

Within this hypothetical company, there is centralized policy control and decentralized operational control. Management is flexible in its attitudes, able to shift product lines to meet new demands, ready to back research, aggressive and imaginative in capturing markets and satisfying customers.

Above all, this ideal company is working now to develop its future management—the capable, decisive men who can meet the coming challenges.



*A survey of 215 companies:*

## SOURCES OF ECONOMIC INTELLIGENCE

By Gerald J. Fuchs and  
G. Clark Thompson

*Condensed from Business Record*

**I**N A RECENT SURVEY of America's best-managed corporations, one attribute was repeatedly mentioned as being essential to corporate success: planning ahead. The indispensable starting point for effective company planning is economic research: obtaining and analyzing accurate information about industry and customer trends and the national economy.

How do companies obtain this vital economic intelligence? A recent National Industrial Conference Board survey of the practices of 215 manufacturing corporations offers some answers:

About 20 per cent of the survey respondents employ their own staff units for economic research. In about one-third of these companies, the unit reports to a marketing executive—most frequently the director of marketing services, the director of marketing research, or the vice president in charge of sales. In another

third of these companies, the unit reports to a financial officer—usually the treasurer or financial vice president. In the remaining third, staff economists report to "senior officers," management committees, the president, or the board of directors. Many companies—almost another 20 per cent of the 215 companies surveyed—use staff people to perform economic functions, although these employees are not members of formal economic staffs.

How large are companies' economic staff units? In one-half of the surveyed firms, the unit—full-time or part-time—consists of fewer than three people. Often the "unit" is simply one professional economist. On the other hand, the staff in one-fifth of those companies with their own economists consists of ten or more employees, some of whom may be clerical workers.

The principal job of the economist in many companies is to keep management informed of economic developments that could affect company plans. A number of companies

*Business Record (September, 1960), © 1960 by National Industrial Conference Board, Inc.*



report that their economists "counsel various divisions," "assist management," and become "involved in the review of any important step contemplated by management." In some companies, the economists concentrate on specific projects, such as compiling data for use in labor negotiations or analyzing foreign economic conditions. Typically, however, the staff has both specific and general responsibilities.

The most important single activity of staff economists is preparing forecasts—long- or short-term forecasts of the national economy, specific industries, or particular locales. In some companies, the economists prepare special forecasts for various departments or divisions.

Nearly 40 per cent of the companies surveyed use outside economic consultants or services, regularly or for specific projects. In almost all of these companies, the consultants report directly to top management, but, in a few cases, this depends on the specific project.

Consultants usually provide broader, more general service than company economists: conferences, consultations, or special reports to top management on the economic outlook. Other consultant services may include reviewing the findings of staff economists, checking data to be included in the company's annual report, conducting forums, and—as one company reported—serving as chairman of the corporation's planning committee.

A prime source of economic information for top management is general business reading, including trade journals, economic letters, and

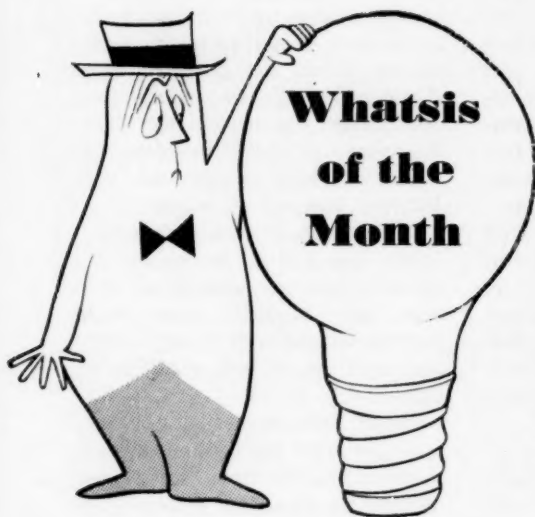
news services. For most large companies, however, this material supplements the direct information obtained from the economist and his staff. Other external sources—valuable but still supplemental—are trade associations (for developments within the industry), customers, outside directors, and banks.

Once companies obtain the economic data they need, how do they distribute it to top management? About 25 per cent of the manufacturers with internal economic staffs report that this unit prepares a newsletter which summarizes pertinent economic information. Several firms report that their marketing research department does this job, as well as circulating other publications dealing with economic conditions. In some instances, outside consultants prepare bulletins for the company officers. Companies employing neither consultants nor staff economists usually distribute economic information informally, via general circulation of published material or management meetings. Some companies, however, do little to coordinate or distribute economic information.

How valuable is this information? Many respondents agree with the president of a lumber company, who answered: "Without such knowledge, I do not understand how companies can plan their operations intelligently." But some companies, while realizing the value of economic data, do not always know how to apply what they learn to their own businesses. And some companies with specialized needs question the value to them of some of the broad economic indicators. ♦



**Book-of-the-Month, Play-of-the-Month, Cheese-of-the-Month, Trip-of-the-Month—these are among the clubs that comprise a vigorous \$390 million industry . . .**



## ***The Boom in Mail Order Selling Clubs***

**By Peter Landau**

*Condensed from Newsweek*

**D**URING ONE RECENT WEEK, tens of thousands of U.S. consumers accepted and paid for a mail-order barrage of large chunks of Emmenthaler Swiss cheese, copies of "Walk Egypt" (an "elementally and humanly true" novel about a Georgia hill girl), pressings of one of Johnny Mathis' record albums, and ten-pound boxes of "cool, summer-sweet pears."

This was just a part of one 30-day diet of eating, reading, and listening preselected for customers by Cheese-of-the-Month, Book-of-the-Month, Fruit-of-the-Month, and similar clubs.

Some 13 million consumers—far outnumbering the combined membership of the Elks, Moose, Rotarians, and a dozen other favorites of American joiners—will chip in an estimated \$30 apiece for their purchases this year. The lion's share of this \$390 million market belongs to the record and book clubs (selling-club members buy about a fifth of all the records and a quarter of all the books sold in the U.S.). But the clubs cover everything from house blueprints to hamburgers, and they have become an increasingly important part of the

Newsweek (August 8, 1960). © 1960 by Newsweek, Inc.

\$2 billion direct-mail business that has brought selling outlets as near to the customer as his local post office.

"There is a real appeal to this armchair shopping," says Norman A. Adler, vice president in charge of the Columbia Record Club. His club has nearly doubled its membership (to more than 1.2 million) in the past two and a half years. One major appeal: cash savings. Record club members, for example, get several free records as a premium for joining up, then, after a year, get one free record for every two they buy at retail price. New York's Trip-of-the-Month, which suggests an itinerary for its members each month and arranges reservations for them, offers a free week in Miami or the Poconos, for example, to members who book a \$1,000 trip to Europe.

For book and music lovers in many parts of the country, the clubs are almost a necessity. There are only about 3,000 bookstores and 9,000 record stores in the U.S., most of them in and near big cities. Doubleday, which runs 26 book clubs, makes more than half of its sales in towns where there is no bookstore.

Many club members join up just to have experts pick their cheeses, music, or reading matter. The Book-of-the-Month Club, which has distributed some 160 million books since it entered the field in 1926, finds that about a third of its members accept the monthly selection of BOM's Editorial Board. (Members' other choices: an alternate selection, previous selections they may have missed, dozens of other books, or nothing at all.) Readers with more

esoteric tastes are lured by the Mid-Century Book Society's list of books that Jacques Barzun, W. H. Auden, and Lionel Trilling "deem important enough to add to their own libraries."

Some members, of course, join merely to dress up their bookshelves or to show off an impressive record library. Others buy books in hopes they'll get around to reading them. Some clubs, like Around the World Shoppers—a 50,000-member club which may send members lace from Belgium, hand-carved wooden clocks from Germany, or ceramics from Denmark—appeal to the fascination with far-away places. According to Shoppers' David Margulies, when a gift "arrives covered with foreign stamps and markings, it adds a certain romance."

For all their irresistible lures, however, the clubs don't please all their members all the time. Book-of-the-Month, for example, finds that it must replace 40 per cent of its membership annually. One reason: Members often object to getting something they don't want. Automatic shipping, frequently programmed by computers, sends them the preselected item if their rejection notice doesn't arrive in time. Once an item goes out, it seldom comes back, even though the member often has the right to reject it. "That's how the clubs can make a profit," says one industry executive. "People are too lazy to say that they don't want a book, or to send it back."

Has the success of the club business cut into retail sales? For the most part, no. Columbia's Norman Adler reports that well over half the record club's members never bought records before, or bought too sporadi-

cally to affect the business. Book-of-the-Month notes that even giving Bartlett's Familiar Quotations away free has helped boost that volume's bookstore sales.

Many of the smaller clubs are run as sidelines by mail-order houses and retailers to help bring in new business. In addition to its regular mail-order business in fruit baskets and other delicacies, New York's H. Hicks & Son runs a Food-Gift-of-the-Month Club. For fees ranging from \$45 to \$400 a year, the company sends out anything from boxes of fruit to exotic baskets of pâté de foie gras, caviar, and brandied goodies. Candy-of-the-Month (run by New York's Barri-cini's) and Cheese-of-the-Month (run by a New York mail-order distributor called Cheese of All Nations) are both sidelines of other businesses.

The same monthly mails that move books and bonbons can boost sales in other lines. For example, for \$300 a year, House-of-the-Month sends out top architects' home designs to subscribers (mostly banks and construction companies). When a prospective buyer sees a house he likes (prices range from \$11,000 to \$40,000), he can get four sets of blueprints for his dream home, saving architects' fees of up to \$2,000.

The Play-of-the-Month Guild provides members with tickets to Broadway and off-Broadway shows and first-run movies. For a fee of \$16, members can pick from a list of twenty or more shows each season—taking the risk of picking clinkers as well as hits. Among this season's shows: Lerner and Loewe's new musical "Camelot," Maurice Evans in "Tenderloin," and Sir Laurence

Olivier and Anthony Quinn in "Becket."

Not all the clubs catch on, of course, and a few have left members holding the bag. They may appear with a great fanfare of advertising, then evaporate. When they fold, they seldom announce the fact; they simply fail to answer mail or telephone inquiries. Even the most successful clubs find that sooner or later they reach a point of diminishing returns. Book-of-the-Month, for example, operates most economically at a membership level of about 500,000; any more advertising than it requires to replace the dropouts just isn't worth the money.

Most clubs attract their membership from the same basic group of people. Customers interested in reading by-the-month are generally the best candidates for buying classical records, imported cheeses, and exotic delicacies the same way. BOM reports that 83 per cent of its members are college graduates—likely prospects for the Metropolitan Museum's Art Seminars in the Home and RCA Victor's classical and operatic record albums, which are distributed by BOM. Once a member gets his name on a club list, it inevitably winds up on a dozen others. "These mailing lists," says Walter Drey, a mailing-list consultant, "are a club's biggest asset."

While the average club is little more than a commercial meeting of minds, some of them can be downright chummy. A recent mailing by the Columbia Record Club: A bundle of clean shirts that a Milwaukee member reported he had left in a midtown New York laundry. ♦

## CONSUMERS UNION:

# U. S. Business' Most Skeptical Customer

By Philip Siekman

Condensed from *Fortune*

**C**ONSUMERS UNION—the biggest, probably the most influential, and certainly the most vocal adviser to the American consumer—is a force to be reckoned with. In some markets, thumbs down from C.U. can kill a product. In others, its approval can double sales. And more than once in its 25 years, C.U.'s then-unpopular preferences preceded a turn in popular taste and buying patterns. Take American cars, for example: C.U. has been denouncing "giantism," tail fins, over-powering, and over-chroming for twenty years. It was an early and enthusiastic champion of both the Volkswagen and the Rambler. In 1953, C.U. hailed the short-lived Hudson Jet—and last year righteously reminded its readers that the Jet was pretty much the same size as Detroit's newest compacts.

C.U. has long opposed annual model changes in appliances. Now it appears that this opposition is at last finding some backing in industry. Last June, President George Romney of American Motors said that Ameri-

can's Kelvinator division was eliminating annual model changes in its appliances because "attempts to forcibly outdate products that are meant to have a long and useful life . . . are being questioned by the consumer with increasing intensity." These words could have appeared without change in *Consumer Reports*, which uses the same portentous tone of voice to warn against the dangers of radiation fallout or to denounce a clam chowder without clams.

Who reads *Consumer Reports*? The magazine has 700,000 subscribers, plus 150,000 readers who buy it at the newsstand. Counting library and "pass along" readers, over two million families consult it more or less regularly.

As customers, these people can be hard to sell. In fact, a true-blue C.U. consumer in full cry is an awesome sight. A used-car salesman encountered one a few years ago in the person of a medical student armed with a C.U. article entitled "How to Buy a Used Car." First, the student had

*Fortune* (September, 1960), © 1960 by Time, Inc.

his wife and the salesman jump up and down on the bumpers while he sat at the wheel. He then went methodically through the 29 items on the C.U. check list, to the growing astonishment of the salesman—a man more accustomed to the time-honored tire-kicking and door-slammng techniques of selection. The student spent two-and-a-half hours going over the car—and he was not yet sold. He asked the salesman, "Do you mind driving this around the block while I get into the trunk?" The salesman obligingly locked the student in the trunk and chauffeured him around the block. Back at the lot the salesman said, "I don't know what that was supposed to prove, but I hope it came out all right." "I was listening to the differential," the student explained, and closed the deal.

Three questions are most often raised about C.U.: Is C.U. big enough or influential enough to affect sales? Is its testing competent? Is it biased, generally anti-big-business?

C.U.'s over-all influence on sales is hard to measure. However, there have been isolated instances where its impact was traceable and tremendous. The most recent developed out of a December, 1959, rating of dishwashers. Two R.C.A. Whirlpool models were said to be "superior by a clear margin." At the beginning of that December, Whirlpool had what it assumed was a 27-week supply of the highly rated dishwashers. Within a month, 80 per cent of this stock was gone. Production was doubled—but two months later the two models were on 60 to 90 days' back order. Charles Reinbolt, manager of the Whirlpool Specialty Products Division, figures

that Whirlpool will sell twice as many dishwashers this year as it did in 1959, and he is convinced that C.U.'s rating is largely responsible.

In 1954, a top rating was given to two washing machines manufactured by the Norge Division of Borg-Warner. Judson S. Sayre, chairman of the division, says simply, "C.U. put us in the washing-machine business." On the other hand, no appliance or automobile manufacturer interviewed by *Fortune* would say that his sales have ever been hurt by an unfavorable C.U. rating. Most manufacturers concede that C.U. has "some" effect on their sales, but they doubt that it is an appreciable one. American Motors, for example, will say only that C.U. "probably helped" Rambler.

Is C.U.'s testing adequate? It is, with some qualifications. For the bulk of its testing, C.U. relies on its staff of 35 technicians and engineers, plus a varying number of consultants. Most of the staff technicians hold degrees in science or engineering and most were employed in industry at one time. They work in 18,000 square feet of laboratory space in a converted optical factory at Mount Vernon, New York. C.U. also maintains an automobile laboratory in Connecticut and occasionally farms out research projects to private labs. C.U.'s testing equipment, for the most part, is standard gear used in industry, although it has developed some gadgets of its own to test, among other things, electric current leakage, ball-point pens, and refrigerator performance.

Test samples are purchased from retail outlets in various parts of the country by shoppers who do not reveal that they work for C.U. When

possible, they insist on factory-packed merchandise. Any model that performs either exceptionally well or exceptionally badly is rechecked with other samples. (The 1959 Whirlpool dishwashers were tested with six samples.) At the outset, each sample is carefully examined to make sure it matches the manufacturer's published specifications; automobiles are run for 2,000 miles before the testing starts. Any aberration that shows up is then corrected by authorized servicemen.

C.U. testing begins with the tests used by industry for its own products. In some cases, C.U. has devised additional techniques; often, where it seems to make sense, products are also tested in the homes of employees and volunteers. Gas and electric ranges are put through fifty-five checks, refrigerators get forty, portable electric heaters, thirty.

Industry engineers who have been skeptical about C.U.'s technical adequacy usually change their minds once they inspect the setup at Mount Vernon. "Generally, the people who have gone through its facilities have a favorable opinion," says an engineering executive of a large electrical-products firm. "Any manufacturers who are just sitting there complaining about their ratings ought to look to their products."

There is some informed criticism of C.U.'s testing methods. One objection is that the organization can afford to test only a limited number of samples of some products. The automobile industry particularly is unhappy about this, because C.U. usually buys only one car of each model. A second objection is that C.U. is weak on testing the durability of many products: Al-

though travel irons can be run until they burn out, it takes too long to test the longevity of, say, a car or a refrigerator.

A third criticism is that C.U. makes "subjective" evaluations. Frequently its technicians find excessive shock hazard in electric appliances that have received the blessings of the Underwriters Laboratories. Or, manufacturers frequently say, C.U. is "subjective" in weighing various performance factors. For example, a washing machine was once downgraded by C.U. because it "tangled the wash." The manufacturer concedes that this was true, but he objects to the weight given this factor in the over-all rating of a machine that was good at the job it was designed to do—getting dirt out of clothes.

Another question raised about C.U. by businessmen concerns its attitude toward business. Some believe that C.U. is innately hostile to big business and that it consistently rates small-company and mail-order house products over those manufactured by the giants of American capitalism. The facts do not bear out this allegation. A statistical study made some years ago by Eugene R. Beem and John S. Ewing, published in the *Harvard Business Review*, concluded that no such bias was shown in C.U. ratings. Products marketed by Sears, Roebuck and Montgomery Ward under their own labels (often, of course, manufactured by "big business") receive their share of poor ratings, just as trademarked products of such companies as General Electric, General Motors, and R.C.A. frequently get top marks. In fact, the study noted, "the biggest national advertisers were rated



above the average of all their competitors 65.2 per cent of the time."

Many businessmen are not overjoyed at C.U.'s "no commercialization" policy. This policy prohibits any use of the *Consumer Reports* in promotion and sales. A retailer who exhibits the

magazine on his sales floor is inviting trouble with the C.U., and any advertiser who mentions C.U., *Consumer Reports*, or even a "leading independent consumer testing agency" might as well call his lawyers the same day he places his advertisement. ♦

### *Manpower Allocation: A Study of Company Practices*

WIDE VARIATIONS in the number of people hired to perform virtually identical functions in industry are revealed through a nationwide study of representative corporations just released by the American Management Association. The study, named AMA Group Ten Project, is a cooperative pioneering project in continuing self-appraisal by 88 corporations with more than one million employees in nine major industry groups.

Variations of 50 per cent in manpower used to perform standard administrative tasks are common, the study shows. In two industry groups, variations of 200 per cent and 500 per cent were discovered in general administrative work. One company found it had 700 per cent more employees in personnel work—in proportion to its total work force—than another corporation in the same industry.

Variations in the percentage of total employees in major corporate functions are illustrated in this table comparing the high and low industry group figures with the average for all 88 companies:

Function	High	Low	Average*
Manufacturing or processing . . . . .	71.5	45.0	59.68
Design, development, research . . .	26.6	3.9	14.71
Marketing . . . . .	24.1	3.5	11.87
General Administration . . . . .	14.0	8.7	10.58

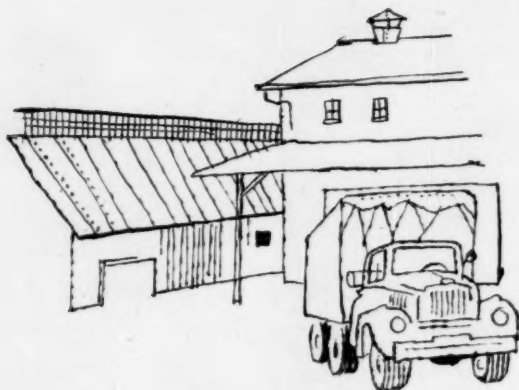
\* Less than 100 per cent total; minor subclassifications omitted.

Here are comparable figures for typical subdivisions of one classification—general administration—in which costs are particularly difficult to control:

General administrative functions	Per cent total workforce	By Industry Group	
		High	Low
Accounting; auditing . . . . .	2.79	3.7	2.0
Personnel . . . . .	1.22	1.9	.7
Purchasing . . . . .	1.13	2.0	.5
Office services . . . . .	1.32	2.1	.9
Operations improvement . . . . .	1.29	2.3	.5
Tabulating; computing . . . . .	.96	1.6	.5

Major industry groups represented in the project are: chemicals, drugs, petroleum and rubber, metal fabricating, aircraft, machinery, electronics, electrical machinery, food, paper, and textiles.





## How Private Trucking Pays Off

By Alfred L. Malabre

*Condensed from The Wall Street Journal*

**M**ONTGOMERY WARD & CO. expects to save \$2.5 million in transportation costs this year. Admiral Corp. recently slashed by 20 hours the time required to ship TV sets from an Illinois plant to a distributor in New York City. There is a common cause for both these achievements: In each instance, trucks operated by the companies on a private basis replaced for-hire vehicles run by common carriers.

A broad range of companies are launching, or expanding, private truck fleets. The American Trucking Associations, Inc., a trade organization, currently boasts a record 3,300 noncarrier members with truck fleets—twice the 1958 total. Besides Montgomery Ward and Admiral, firms expanding their private truck operations either by leasing or direct ownership include such corporate giants as Armour & Co. (200 over-the-road

vehicles), General Electric Co. (150), and Schenley Industries, Inc. (60).

Traffic officials of these and other firms are finding they can often reduce or hold down transportation costs by doing the job themselves. For example, private truck operations aren't saddled with the high overhead costs of common carriers, which often must maintain giant terminals. Private trucks also are free from some of the government regulations that cover for-hire companies, like those that fix rates and routes. In addition, common carriers, with many diverse customers to serve, generally must adhere to fixed time schedules. Private truckers, toting only their own goods, can roll when it suits them best.

Operators of private truck fleets generally are enthusiastic about the savings they are achieving. Says a

*The Wall Street Journal* (August 18, 1960), © 1960 by Dow Jones & Company, Inc.

Montgomery Ward executive, "We're getting much more mileage out of each transportation dollar by setting schedules to please ourselves." Ward's can now make overnight deliveries from its distribution centers to stores within 300 miles; for-hire trucks can't exceed an overnight range of 200 miles. Ward's current fleet of some 280 trucks now serves roughly half the company's 1,143 catalog and retail stores; by year's end, 85 per cent of the stores will be served by Ward's trucks, according to company plans.

Private trucking can sharply reduce handling, a prime cause of in-transit damage. "We've been able to cut our damage complaints by about 80 per cent in the last six months," says Morton R. Cohen, executive vice president of Douglas Furniture Corp., a manufacturer of metal kitchen and dining-room furniture. "We load a shipment on a company truck at our Chicago plant and it's unloaded at the other end by a dealer—two handling operations." Using common carriers for the same shipment involved as many as six handlings: loading the furniture into a carrier's local pickup truck at the plant, unloading the goods at the carrier's Chicago-area terminal, reloading them into an over-the-road truck for the long haul to a terminal near the dealer, unloading them at the second terminal, reloading into a pickup truck for delivery to the dealer, and finally unloading them at the dealer's store. And fewer handling operations can also mean less expensive packaging cartons.

Since initiating private truck runs, Douglas has been able to slice some

\$3 from its dealer price for dinette sets in Boston. "We had been losing our Boston market because common carrier freight rates had gone up so tremendously," he recalls. "Dealers could save \$3 by buying locally. Private carriage has put us back into competition."

Another advantage of private trucking is faster delivery. One factor, of course, is the reduced number of handling operations. Another is the fact that, unlike for-hire vehicles, company-owned trucks don't have to follow routes prescribed by the Interstate Commerce Commission. Magnavox Co., for example, ships TV receivers by company trucks from a Greenville, Tenn., plant north through Cincinnati to Fort Wayne, Ind.—a distance of 466 miles, a company official says. If the sets were shipped to Fort Wayne by a for-hire trucker, he claims, the route laid down by the Commission—running first west to Knoxville, then northwest to Indianapolis and finally northeast to Fort Wayne—covers "well over 500 miles. The run generally requires 20 hours by private truck. By common carrier, it used to take up to three days."

Some firms have launched company-operated trucking where common carrier service simply doesn't exist. To introduce its runs into a new area, a for-hire trucker must first obtain I.C.C. approval. Traffic men, impatient at the delay, often start private operations in the meantime. Take the case of Armour & Co., which established a new packing plant at Lubbock, Texas. "When the for-hire truckers asked for authority from the I.C.C. to serve the

location, the railroads started a fight; by the time the argument was settled, we'd put our own trucks in," recalls an Armour executive.

Traffic men who've turned to private transportation admit a sizable problem exists: the job of finding a return cargo for a run. This problem has caused Rath Packing Co., with a single Iowa meat packing plant, to back out of private hauling. Three years ago, Rath operated 22 trucks between its plant and the West Coast. "We couldn't find enough to haul back to Iowa," recalls an official. "Unfortunately, they don't grow many hogs on the West Coast." He notes that the cost of sending a truck back empty generally outweighs the savings of private carriage on the outbound trip.

One solution to the problem—hauling another firm's freight—is barred by I.C.C. rules unless the cargo is one of 100-odd "exempt" commodities, such as fresh fruit and vegetables. For this reason, private trucking usually best suits companies large enough to carry on "intramural" shipping between stores, warehouses, or factories.

To ease the return-run problem, some firms have tried to develop suppliers in areas where they wish to set up private fleet operations. Douglas Furniture, for example, recently persuaded a large supplier to establish a plant in West Virginia. "We want to serve about 700 dealers there by private truck," explains Mr. Cohen of Douglas. "At present, however, we have no suppliers in the area, so we have nothing to bring back to Chicago after our merchandise is delivered." When the supplier's new

plant is completed later this year, however, Douglas intends to launch its own private truck runs into the region.

Admiral already has suppliers in several of the areas to which its trucks deliver TV sets and other products. It costs Admiral an estimated \$692 to use its own truck to haul a load of TV sets from its Harvard, Ill., plant to New York and then bring back TV tubes, glass, bolts, and other items. For the same jobs, Admiral figures it would have to pay a common carrier about \$860. Without a return load, however, Admiral estimates it would cost about \$100 more to ship the TV sets to New York in its own truck than it would to get them there by common carrier.

Setting up a truck fleet is a costly operation—which helps explain why many companies prefer to stick with common carriers. Leasing helps many firms ease the initial costs of switching to a private fleet. When companies prefer to buy their own trucks, they often add to their fleets gradually. Douglas Furniture's 12-truck fleet, for example, has been built up since January 1 and now handles two-thirds of Douglas' freight. The company expects to add trucks to take over a growing share of its cargoes in the months ahead. Douglas' outlays so far include \$100,000 for new highway equipment, \$5,000 for truck docks, \$3,500 a year for insurance on each vehicle, and \$7,000 a year for each driver's wages. "It's not cheap," says a Douglas official, "but it's certainly paying off. We expect to save \$200,000 in the first year alone." ♦

# How Companies Use Credit

*Condensed from Management Methods*

**H**OW DOES your company's credit program compare with those of other firms? How can credit be used to build sales? What role should top management play in credit policies?

To answer these and other questions, a new study has been conducted by the National Association of Credit Management among 123 credit executives. These are some of the findings:

**Collections.** More than a third of the credit executives surveyed report that collecting money is tougher this year than it was a year ago, and more than half of these men expect the collection problem to increase through the next twelve months.

For one out of every four companies, 20 per cent or more of its business comes from "marginal" accounts: firms with inadequate working capital and a record of slow payments, but with responsible management and strong sales potential. This is not, of course, the only kind of marginal account; a credit executive may take a chance, for example, on a company providing sufficient profit (despite slow collections), one with unutilized capacity to produce, or one with a good location. On the other hand, he might take a hard look at a firm with financial inexperience,

operating or marketing problems, spasmodic buying habits, debts, or low profit margins.

An additional one out of every three firms gets from 11 to 20 per cent of its business from risky customers. Not one company in the survey reported getting its total sales volume from foolproof credit risks.

**Predicting a customer's future stability.** Credit executives judge a customer's future stability much as a company president forecasts his own company's future: by analyzing trends, ratios, and market patterns. The tools of the credit executive are yearly balance sheets, profit-and-loss statements, and comparisons of the company's ratios with industry averages. The credit executive also sizes up the quality of the customer's management—its ability, integrity, and record—plus the industry's growth prospect and the over-all trend of the economy. About 74 per cent of the credit executives surveyed actually forecast their customers' stability in this manner.

**Formulating credit policies.** In at least 85 per cent of the companies surveyed, the company president participates in major credit decisions and policies—usually to set policy or to make the final decisions on large

*Management Methods (September, 1960), © 1960 by Management Magazines, Inc.*

marginal accounts. He is also likely to participate in the periodic review of credit operations and to guide long-range credit planning.

*Determining credit terms.* More than half of the companies surveyed formulate their credit terms independently and internally. But general economic conditions are the major determinant for 19 per cent of the companies, and competitors' terms for 17 per cent of the companies.

*Measuring the credit department's effectiveness.* There are three widely accepted yardsticks used by top management to determine how good a job the credit department is doing: percentage of credit sales collected in any given period; ratio of bad debt losses to sales; and some measure of how long past-due accounts have been owing.

Some companies try to appraise their credit departments more qualitatively. They review the credit department's success in developing maximum sales to marginal customers with minimum losses, or they try to determine how much customer good will and quality credit service affects their sales or profits. Some examine the credit department's operating cost in relation to the total budget and sales picture.

Is credit management happy with the way top management judges it? For the most part, yes. But among those who would like to see changes, many feel that there should be more top-management recognition of the credit department's role in building business with marginal accounts—via preanalysis, control, collection, and actual help. Frequently, for example, the credit manager acts as

financial adviser to companies with problems, and he may turn a foundering customer into a loyal one. Some credit managers would like to be included in long-range planning and sales policy-making. Most of the credit managers who would like to be judged differently ask for a more qualitative appraisal, to supplement the traditional statistical one.

*Helping top management plan ahead.* Aside from its normal reporting to top management on the projected cash flow from receivables, tempo of collections, and anticipated charge-offs, a number of credit executives provide top management with other data for long-range company planning. Among them: financial trends in money markets; trends and financial statement analyses of key accounts; trends in specific industries comprising the company's market; economic forecasting; comparison of competitors' collection rates and terms; new dealer potential; and customer inventory analysis and projections.

*Using credit to build sales.* Nearly seven out of ten credit managers take active steps to help their companies build sales. They personally solicit more business from desirable accounts by personal call, telephone, and mail, by sending direct mail stuffers with bills, and by advising dormant customers that their credit is good and urging them to use it.

Today's credit manager frequently arranges special terms to help complete a sale. He may also advise a customer how and where to obtain outside financial help. He sometimes accompanies the salesman in calling on a customer, so that the credit ar-

rangement and sale can be simultaneous. He commonly helps the sales department by providing prospect lists; often analyzes the quality and potential of present customers and refers these names to sales for follow-up; and, in some cases, goes after a good account that the sales department has lost.

*Creating good will.* Collecting the customer's money and making him like it is a ticklish and often thankless job. But credit executives claim that they do it successfully every day. Here's how:

- Selling credit terms at the same time as the product, to avoid later misunderstanding.

- Thanking prompt payers with courtesy letters.

- Handling complaints immediately and amicably.

- Offering flexible terms to new businesses during infancy and cooperating with hardship cases.

- Providing financial counsel for companies with problems.

- Collecting past-due accounts tactfully and with the least possible amount of friction. ♦

### *"Christmas Comes but Once a Year . . ."*

. . . AND FOR THE GIFT-WRAPPING INDUSTRY, it is a time of feverish activity. Actually, their Christmas season began on the Fourth of July. Since the early part of the summer, orders have been pouring in for the \$120 million worth of decorated paper and colored ribbons that, it is estimated, Americans will rip off their gifts on the morning of December 25.

The Christmas season accounts for about 60 per cent of the year's gift-wrapping business. In 1959, that business aggregated more than \$200 million in sales; this year's sales indicate a healthy increase over that figure.

Consumers this year will be able to pick among some 3,000 to 4,000 different papers and ribbons. Among the new designs and materials this year are foils, laminated plastics with sequins, artificial flowers, and even feathers placed between layers of clear plastic.

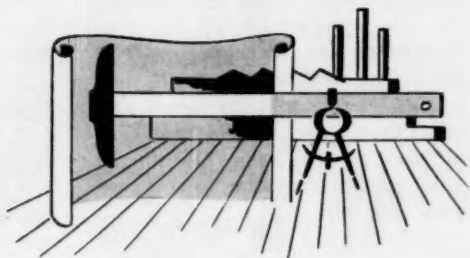
The favorite ribbon color for this year's Christmas season will, as usual, be red—which is expected to account for about 45 per cent of all ribbon and bow sales. Other popular colors are gold, green, white, rose, and aqua, in that order of preference.

A noticeable trend in recent years has been the increasing number of shoppers who have retail stores gift-wrap their purchases for them. Some stores provide this service free of charge, but many people are willing to pay anywhere from 25 cents to several dollars per package to be relieved of their holiday wrapping chores.

The gift-wrapping industry's work for 1960 may be just about over, but they will remain busy filling orders for the late spring graduation and wedding season—and designing new papers and ribbons for Christmas, 1961.

—*The New York Times*, 9/25/60





## When You Plan Your New Plant

There's often more to plant planning than meets the eye. Here are some points to keep in mind . . .

By John McCabe

*Condensed from  
Dun's Review and Modern Industry*

**A** PAPER MANUFACTURER put up a new mill a few years ago costing over \$15 million. It would have been one of the most efficient layouts in the industry—except that somebody forgot to provide for adequate disposal of waste chemicals. Now there's a five-acre lake of waste liquid beside

the mill, and the company is rapidly running out of land for reservoirs.

Another company, a food products processor, shut down one of its four plants and completely modernized the others at a cost of \$600,000. Three years later, it was realizing operating savings of over \$1 million a year.

The essential difference between these two cases is that the food processing company did a thorough and systematic job of plant planning. The paper manufacturer did not.

The need for careful planning increases every year. The rapid growth in markets since the war and the almost explosive development of new products has brought about unprecedented activity in construction, expansion, and relocation of manufacturing facilities here and abroad. Yet, according to a recent survey conducted by Cresap, McCormick and Paget among 141 top industrial companies, plant planning is still not getting the management attention it deserves.

*Dun's Review and Modern Industry (October, 1960), © 1960 by Dun & Bradstreet Publications Corporation.*



The errors are not always as obvious as the paper mill's reservoir. A chemical producer, for instance, seeking a larger share of market for one of its products, simply expanded its plant, which today is operating at 50 per cent of capacity. The reason: The company neglected to consider alternative plans, such as building a new plant near the market it wanted to serve.

This failure to evaluate all promising alternative solutions is one of many pitfalls that companies commonly stumble into when they undertake plant planning. Here are others:

*Nearsighted planning.* Of the 141 respondents to the survey, about 66 per cent said they plan their plant needs from two to five years ahead; another 15 per cent plan less than two years ahead. Since manufacturing facilities often require a lead time of two to three years for design, equipment procurement, and construction, a planning period of five years ahead should be a minimum for most industries.

The penalties of short-range planning can be severe. For example, one electronics manufacturer decided to combine its five small plants into a single large facility. It planned the size of the new plant on the basis of a two-year forecast of sales. A year later, on the eve of signing the construction contract, the company checked its plans against a longer-range forecast and discovered that the consolidated facility would be wholly inadequate in three years. The delays and costs the company incurred in procuring additional land and revising construction and equipment purchase plans could have been

avoided had plant planners looked far enough ahead at the start.

*Stop-and-go planning.* Right up to the time a plant installation is complete, continuous review is needed to reflect changes in sales forecasts, production process developments, and other factors. Yet fewer than half the companies surveyed plan for plant on a continuing basis. This is especially dangerous for growth companies: In industries where markets expand and shift rapidly, plant plans become obsolete fast.

*Poor policy guidance.* About 40 per cent of the responding companies lack the kind of plant planning policies that are essential for proper direction and coordination. Plant planners need clear guidelines that tell them whether a rural, urban, or suburban location is preferred, what size the labor force will be, and so on.

*Faulty organization.* Few management decisions involve larger, more irrevocable, or more enduring financial commitments than those made for constructing, modernizing, or expanding plant. Few decisions have such broad, company-wide ramifications. Logically, plant planning is a top-management responsibility, and it should be treated organizationally as such. Too often, however, the planning function is buried so many levels below the chief executive that there is trouble communicating with top management and obtaining capable staff. Often, too, key people are left out of the planning.

The man who will be responsible for operating the new facility should have a voice in the planning, along with market research and industrial engineering executives. And, of

course, plant plans must be coordinated with the company's financial and other long-range plans. This is often done by centralizing all planning activities under one executive who reports directly to the president.

*Inadequate staffing.* Some companies lack the qualified people to do a good job of plant planning. Others have plenty of qualified staff but give them no time for the necessary study and analysis. When the work load warrants, the company should have a full-time, properly qualified staff to plan major projects on a continuing basis. Otherwise, it should at least assign personnel full-time for the duration of major planning projects, freeing them from the distraction of other duties.

Planners should have a balance of theoretical knowledge in industrial engineering and practical know-how in manufacturing problems. One airline gets excellent results from a facilities-planning group supervised by an industrial engineer and staffed largely by men who started their careers as aircraft and engine mechanics.

*Weak data.* The most meticulous and exhaustive plan is no better than the data on which it is based. Witness the plight of an electrical parts manufacturer rattling around in a barn of a plant that, after a year, is still half-empty. Management did a first-rate job of planning for this plant in all respects, except that the sales projection on which the whole plan was based turned out to be utterly unreliable.

The economic assumptions underlying the plant planning must be authoritative, and they must be

thoroughly understood and approved by top management. Sales forecasts, particularly, demand careful and realistic market research—not wishful thinking.

*Poor analysis of costs and intangibles.* Many companies make the elementary mistake of comparing apples with oranges when they make cost studies. For instance, a housewares manufacturer was planning to consolidate three plants into one. In its study, it lumped together the cost of several new, high-speed punch presses and compared this sum with the cost of the older, slower presses that would be replaced. In terms of outlay alone, this made the new plant look bad in comparison. The company almost discarded a perfectly sound plan until a careful economic analysis—considering operating savings as well as purchase prices—brought the picture into focus.

A great many factors must be analyzed to come up with a fair evaluation of a project. Among those cited in the survey were: wage rates and costs, freight costs (outbound and inbound), building costs, and taxes. Among the intangible factors were: labor availability, labor quality, transportation services, community environment, and union activity and relations.

The most obvious factors are not always the most significant ones, either. For example, a bulk-product processor who had studied 50 locations was about to decide on one that promised labor savings of \$100,000 a year—until a last-minute check of freight costs revealed an increase that would have more than offset labor savings. ♦

# Guiding Dealers to Better Profits

*Condensed from Sales Management*

**A**RE DISTRIBUTORS selling your merchandise at a loss without even knowing it? Are they ignoring their expenses to the point of ruining any possibility of a fair profit?

One company—Royal McBee Corp., of Port Chester, N.Y.—discovered that many of its own distributors were having exactly these problems. Distributors, of course, want to expand their businesses and increase their sales; their success, in turn, usually means increased sales for the parent company. But many dealers are simply unfamiliar with budgeting and financing, inventory control, pricing, and other management techniques. Accordingly, their profit performance suffers.

Royal McBee—with a network of 800 distributors to handle its typewriters, office-copiers, and typewriter supplies—has a stake in the sound management of its distributorships. Therefore, about a year and a half ago, the company undertook a program to guide its dealers in improving their businesses. The first step was a survey of distributors. Among the findings: Not a single distributor checked in the survey was keeping his expenses, as a percentage of sales, at a level that would insure a fair profit. And 16 per cent of the time, they were selling merchandise at a loss without even knowing it.

As a result of this survey, the company developed and distributed to each of its dealers a loose-leaf volume, "Royal Distributors' Guide to Profits." These are some of the points it covered—points on which any company can advise its distributors:

Most distributors have neither the time nor the resources to develop and work with a complicated budget. But the parent company can help them create a streamlined budget that will provide a path to solvent business and increased profits.

As a guide to profit preparation, Royal McBee made a survey of its successful distributorships—those that were producing a profit of 10 per cent or more before taxes. A profile of these successful businesses emerged. For example, their total payroll expenses averaged 18.6 per cent of their sales; controllable expenses (overhead, supplies, advertising, maintenance, etc.) averaged 13.3 per cent of sales; and fixed expenses (depreciation, insurance, taxes) averaged 3.6 per cent of sales, for a total gross expense of 35.5 per cent of sales. Each category was further broken down, in the profile, into specific items (legal fees, postage, motor vehicle operating expenses, etc.)—and shown as a specific portion of sales, based on the national averages

*Sales Management (October 7, 1960), © 1960 by Sales Management, Inc.*

of expenditures by the successful distributorships.

There is very little that the average distributor can do to decrease his fixed expenses, like payroll and taxes, other than attempting to adhere to the going rate in his own community. Controllable expenses, however, can be reduced. For example, one distributor found that he was spending 3.5 per cent of his sales for advertising—more than the 2.1 per cent that the profile indicated was the average. He looked for—and found—ways to trim his ad budget and to make his ad dollars go further. The same techniques, of course, can be applied to other controllable expenses. Royal McBee found that after its guide was made available, distributors that had been very close to operating in the red were able to reduce costs and increase profits sharply within 30 to 60 days.

Another area where Royal McBee found that distributors were unconsciously letting profits slip was pricing. Many distributors, for example, were not considering the indirect fixed expenses involved in maintaining the distributorship when they set their retail prices for used typewriters. The result: a price that returned the dealer a minimum profit. The company showed the distributors how to use the profile's gross expense percentage to help them set a price that would return them a fair profit over and above total expenses.

Other ways of controlling expenses, as pointed out in the Royal McBee guide, were these:

- Distributors should spell out a firm policy on phone usage, particularly long-distance calls.

- They should consult their local insurance agent to analyze their coverage. They may be carrying the wrong type, too much for the situation, or too little in a crucial area.

- Distributors should review accounts that are frequently more than 30 days past due. If these are carried on the books long after they become worthless, the dealer may find it too late to take the tax reduction due him.

- Dealers should periodically review their investments in business property, trucks, mechanical equipment, and store fixtures to make sure that they obtain the proper depreciation allowances.

- Distributors should allot themselves regular salaries for managing the business. Even if their "take" is the net profit anyhow, omission of this item in the overhead expense picture can provide a completely false evaluation of that overhead—and can result in unprofitable pricing.

A distributor's inventory represents a substantial cash investment. If it is too large, it drains profits. If it is too small, the distributor is losing sales that he would have made if he had a balanced inventory. Royal McBee found, in its study, that most distributors were stocking almost twice as large an inventory as the business justified. Most of the overstocking was in spare parts and used machines—a possible pitfall for distributors in many lines.

Another problem in inventory control, the company found, was distributors' inventory shrinkage on small items, like typewriter ribbons, carbon paper, stencils, and other office supplies. Small goods are the

most difficult to control, and, because of the low unit cost, frequently do not get the attention they deserve. A well-run distributorship should take a complete inventory of small items at least every quarter to check "leakage" and obsolescence.

The secret is to carry a balanced inventory that will satisfy customers' demands but will not unjustifiably eat into profits. The company recommended, as a rule of thumb, a minimum quantity for most items based on two-months' requirements and a maximum quantity representing no more than four-months' sales. It recommended, too, that distributors avoid stocking unusual items unless records show that there are customers who order them regularly.

An unbalanced inventory, and lower profits, can also result when a distributor tries to carry too many lines, resulting in the neglect of especially valuable franchises—and reduced profit. Royal McBee's guide to its distributors suggested they find which goods bring in the most profit for

the time required and concentrate on keeping inventories of these goods in balance and selling them, without spending unprofitable time on secondary lines.

These are only a few of the points covered in the company's guide. Since the program was initiated, Royal McBee reports, benefits have accrued to the company and its distributors:

- Distributor morale and brand loyalty have increased as a result of dealers' feeling that the home office had their interests at heart.

- Distributors increased profit by cutting back on low-profit lines—allowing more time for the Royal franchise.

- Two-way communications between distributors and the home office have greatly improved.

- The average distributor—according to a random survey made after the program got under way—was able to increase his profits almost \$1,400 annually through the economies brought to his attention by the company. ♦

## *What Worries Executives?*

BUSINESSMEN'S PRINCIPAL CONCERNS are rising costs, lower profit margins, and increasing foreign and domestic competition, reports *The Iron Age* in releasing the results of a recent survey of executives conducted by Wolf Management Engineering Co., Chicago.

Almost two-thirds of the respondents named lower profit margins as one of their biggest problems; about the same number claim to be harassed by increasing competition. It appears, however, that the fear of impending foreign competition is greater than current threats. Only one-quarter of the executives state that foreign competition has already deeply affected profits, while another 7 per cent mention imports as hurting them "to some extent."

Despite their worries, businessmen are not selling the future short. Although there is great dissatisfaction about the way 1960 has turned out, almost 70 per cent of those executives who planned expansions this year say they are going ahead with their plans.

## ALSO RECOMMENDED

# BRIEF SUMMARIES

## *of other timely articles*

### GENERAL

**A WORLD MARKET IN UPHEAVAL.** By Georg Tugendhat. *Fortune* (Time & Life Building, Rockefeller Center, New York 20, N.Y.), October, 1960. \$1.25. Oversupply, collapsing prices, and economic nationalism in the international oil industry are forcing governments and corporations to make a complete reappraisal of policies. The U.S. is setting up quotas that protect not only its domestic production of oil but also its production of bituminous coal—and the author sees these practices placing the U.S. in the dilemma of reconciling a policy of national fuel self-sufficiency with its aims of combating Communism in the free world. He suggests that oil companies try to get producing and consuming governments to agree on codes defining such matters as exploration limitations, production targets, product pricing, and the status of company properties.

**DEVELOPING DECISION MAKERS.** By Charles H. Kepner and Benjamin B. Tregoe. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1960. Reprints \$1.00. The major innovation in this new method of developing decision-making abilities is the way it sets up realistic situations that permit participants to learn from experience. Each session consists of two groups of four men (assigned to be general manager and the heads of sales, purchasing, and shipping), and each group works independently on the same situation. As

in the "in-basket" technique, the manager must solve problems presented in his incoming mail, but instead of making decisions in isolation, he phones or confers with members of his group, each of whom has the information—sales forecasts, quality-control reports—connected with his particular department. The sessions are followed by a critical evaluation of performance.

**SELECTING EXECUTIVES.** Published by the Department of the Navy (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C.). 20 cents. Written for line executives and personnel specialists, this pamphlet discusses the job of the executive, ways of setting qualification requirements, and selection methods ranging from appraisal of performance and potential to arriving at a final decision. It is based on current thinking on executive selection—the information in most cases should be considered as hypotheses—and its emphasis is on the presentation of principles that can be applied to specific situations.

**EXECUTIVE COMPENSATION: THE FRINGE ON TOP.** *Industrial Relations News* (230 West 41 Street, New York 36, N.Y.), September, 1960. \$1.00. To attract and hold management talent, more and more companies are offering, in addition to conventional fringe benefits, more unusual ones such as use of company car, company-paid membership

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in a country club, or free legal services. This article measures ten common methods of executive compensation (including current and deferred profit-sharing, incentive bonuses, and stock options) against specific objectives—protection against hazards, incentive for performance, and inducement to remain—and gives results of a survey comparing the percentages of junior and senior executives who receive financial incentives in 284 corporations in the United States.

**PETROCHEMICALS FACE NEW CHALLENGES.** *Business Week* (330 West 42 Street, New York 36, N.Y.), September 3, 1960. 50 cents. The petrochemical

industry is bracing itself for a siege: Profit margins are shrinking; there is overcapacity in a number of basic products; and wages, taxes, and raw material costs are spiraling. The greatest threat to it, however, is increasing competition from oil companies, according to this special report, which explains why more and more oil companies are going in for production of petrochemicals and describes the problems they are encountering. If the oil industry gets into petrochemical production much further, the U.S. market will become flooded; to alleviate the situation, this report suggests mergers, acquisitions, the setting up of joint companies, or expansion overseas.

## FOREIGN OPERATIONS

**OUR STRATEGY FOR SURVIVAL.** *Steel* (Penton Building, Cleveland 13, Ohio), September 5, 1960. 50 cents. Because of foreign competition, the U.S. has lost since 1956 more than \$4 billion in sales, the livelihood of some two million people, millions of tax dollars, and inestimable prestige in the world market. Combating foreign competition, according to this special article, entails a global concept of management to integrate domestic and overseas markets by exploiting the advantages of each area, such as new or cheaper raw material sources, lower labor costs, fiscal arrangements, etc. It lists the top 30 foreign markets according to rank, gives facts needed to enter the markets, tells how to pick the right men for overseas posts, and suggests how to avoid the errors described in *The Ugly American*.

**OVERSEAS OPERATIONS.** By Seymour L. Linfield. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1960. Reprints \$1.00. What literature is there to help and guide executives and their companies in crucial overseas ventures? The author not only reviews selected books and articles available, but also outlines

areas for consideration in new books. Calling for a fresh look at long-range policy in private U.S. operations overseas, he examines how each of the following aspects is treated in recent literature: (1) philosophy of overseas operations; (2) organizational structure to maximize international profit potential; and (3) operational controls (policy and personnel) designed to realize corporate overseas goals.

**PROCEDURAL PROBLEMS IN THE OVERSEAS OPERATION.** By Paul Kammerer. *Office Executive* (1927 Old York Road, Willow Grove, Pa.), September, 1960. 50 cents. *Flimsy* is the word for a tissue copy, a salesman is a *traveler*, and customers may be known as *debtors* in Britain—and, in some areas of the world, a date expressed as 2/5/60 would mean May 2nd, not February 5th, 1960. These examples illustrate some of the costly or inconvenient surprises that harass a newly established overseas operation, according to the author, who examines the many adjustments in administrative practices that may have to be made when a company launches office operations abroad and explains how to make them successfully.

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## PRODUCTION

**CHICAGO SHOW REPORT.** *American Machinist* (330 West 42 Street, New York 36, N.Y.), September 19, 1960. 75 cents. Numerically controlled machines were the most spectacular attraction at the recent Machine Tool Exposition Show, which displayed more new controls of all kinds for machine tools than any previous show had. Reporting technical trends in machine tools, this article notes three aims on the part of builders who exhibited: (1) to attain greater flexibility in machine operation; (2) to reduce to a minimum what an operator has to do to secure repeatability of dimensions on successive workpieces; or (3) to rely on the machine to perform a complete operation by itself. Photographs.

**STAINLESS STEEL IN MANUFACTURING AND MAINTENANCE.** By Richard E. Paret. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), October, 1960. Reprints 25 cents. To help the manufacturing or maintenance engineer select the right stainless steel for a particular job, the author not only describes various types available and their properties, but also tells how to form, shear, bend, machine, weld, and work with them. Stainless steels most commonly used are listed by alloy type, particular uses, basic composition, and fabricating techniques. Information on mill finishes for stainless steel sheet specifies the type of finish, surface appearance, and use of each as a starting or final finish.

## MARKETING

**ARE INVENTORIES REALLY TOO HIGH?** By Charles A. Bliss. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1960. Reprints \$1.00. Having too many products on hand results in waste and capital loss; having too few invites needless sales losses. Are inventories too high today? The author looks at this question from two points of view—that of the economy as a whole and that of the individual firm—and, tracing inventory adjustment periods during past years, he answers *no* on both counts. The appropriate standard for judging inventory level, he says, is a variable one that permits stock turnover to speed up with active business and to fall if business declines.

**HERE'S A REALISTIC WAY TO PLAY WHOLESALE.** *Business Week* (330 West 42 Street, New York 36, N.Y.), September, 1960. 50 cents. A novel game developed by the American Radiator & Standard Sanitary Corp. is designed to provide its sales managers

with tools for selecting the best customer mix—i.e., the customers they sell to and the way they divide sales effort among them. Data on 300 customers (estimates of annual purchases, credit limits, and buying habits) plus data on salesmen (what each is like, what each sold last month to each of his customers) is fed into a computer, which prints each distributor's profit-and-loss statement, sales summary, credit and inventory reports, and a report on each salesman's performance. The manager takes it from there.

**NEW YORK BUYING OFFICES.** *Sales Management* (630 Third Avenue, New York 17, N.Y.), September 2, 1960. 50 cents. The rapid change in fashion merchandise causes many store buyers outside New York to rely on the services of buying offices in New York City, which constantly scour their respective markets or examine merchandise brought to them by manufacturers' representatives during regular hours each week.

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These offices, in the buying center of the world, serve nine out of ten department and specialty stores. Information on who they are, how they're organized to work with manufacturers, and the stores for which they buy in the U.S. and in foreign countries is presented here.

**WHAT'S THE BEST WAY TO HANDLE ADVERTISING INQUIRIES?** *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), August, 1960. 50 cents. Ten industrial sales executives tell how to handle ad inquiries, from

the standpoint of both processing mechanics and sales policies. One emphasizes the importance of a fast reply; another suggests that local men do the screening; other viewpoints stress how to handle inquiries by phone, the importance of follow-up reports to inquirer and distributor, and reducing paperwork for salesmen. Most of the executives say that inquiries should be screened to avoid wasting the time and effort of having a salesman call on students, housewives, or others who are not really in the market.

## FINANCE

**MEANINGFUL COSTS FOR MANAGEMENT ACTION.** By Robert Beyer. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1960. Reprints \$1.00. Today, accounting must not only tot up *what* has happened, but also tell *why* it happened, in order to assist the manager in making future decisions that will increase profit on the capital he employs. The author compares the statement of a typical profit plan with a statement of net earnings used in profitability accounting to show how the conventional method differs from the new one; he also demonstrates how the incremental and profit contribution aspects of profitability accounting assist in such areas as product pricing, capital budgeting, and make-or-buy decisions.

**CASH BUDGETING: KEY TO FINANCIAL PLANNING.** By Roger M. Pegram. *Industrial Distribution* (330 West 42 Street, New York 36, N.Y.), August, 1960. \$1.00. More businesses have failed with a balance-sheet surplus than those that ended up owing more than they owned—because the surplus wasn't enough. For adequate working funds, the author recommends setting up a working cash budget that employs these considerations: (1) monthly operations (net sales expected, gross profit, and op-

erating profit); (2) cash flow, showing receipts and disbursements; (3) cash position after disbursements; (4) purchases to maintain inventory level (based on stock/sales ratio); and (5) month's-end position (accounts receivable, inventory, and trade payables). Though intended primarily for use by distributors, the principles of this method can be applied in other kinds of business.

**IS A.T.&T. PLAYING IT TOO SAFE?** By Gilbert Burck. *Fortune* (Time & Life Building, Rockefeller Center, New York 20, N.Y.), September, 1960. \$1.25. What is the ideal ratio between debt and equity? What factors determine this? And are regular, fixed dividends in accordance with the fundamental principle of free enterprise that equity should reflect risk as well as reward? In this discussion of AT&T's financing policies, the above questions are raised by critics who contend that the giant corporation is shortchanging both customers and shareholders by maintaining a debt-equity ratio of only (approximately) one-third and by paying a dividend of \$9—no more, no less—come depression, prosperity or recession. AT&T's rejoinder is that in financial matters it is better to err on the side of conservatism.

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## Management by Machines

*(Continued from page 19)*

one where scheduling is less formal and complete. Generally speaking, then, "work-pushing" and "expediting" will make up a much smaller part of the supervisory job at lower and middle levels in highly automated operations than they do at present.

Another large chunk of interpersonal activity is the buying and selling activity—the work of the salesman and the buyer. If we think that buying decisions are not going to be made much more objectively than they have in the past, then we might conclude the automation of the salesman's role will proceed less rapidly than the automation of many other jobs. If so, selling will account for a larger fraction of total employment.

### THE OCCUPATIONAL PROFILE

Clearly, the executive of 1985 will manage an organization with a much higher ratio of machines to men than is characteristic of organizations today. The men in the system can be expected to play three kinds of roles:

1. There will be a few vestigial "workmen"—probably a smaller part of the total labor force than today—who will be part of in-line production, primarily doing tasks requiring relatively flexible eye-brain-hand coordination.

2. There will be a substantial number of men whose task is to keep the system operating by preventive and remedial maintenance. Machines will play an increasing role, of course, in maintenance functions, but machine powers are not likely to develop as rapidly, relatively to those of men, in this area as in the area of in-line activities. Moreover, the total amount of maintenance work—to be shared by men and machines—will increase. For the middle run, at least, this group should make up an increasing fraction of the total work force.

3. There will be a substantial number of men at the professional level, responsible for the design of the product, for the design of the productive process, and for general management. Such occupations will probably constitute about the same part as they do now of total factory and office employment.

A second important characteristic of future production and data-processing organizations is that some of the kinds of interpersonal relations involved in supervising and expediting, which are now very stressful for most persons engaged in them, will be substantially reduced in importance.

Finally, in the entire occupied population, a larger fraction of members than at present will be engaged in occupations where "personal service" involving face-to-face human interaction is an important part of the job.

In some respects—especially in terms of what "work" means to those engaged in it—this picture of the automated world of the future does not look drastically different from the world of the present. Under the general assumptions we made—rapid automation, but under full employment and with a stable skill profile—it will be a "happier" or more relaxed place than it is now. As far as man's productive life is concerned, these do not appear to be earth-shaking changes. Moreover, our conclusions do not depend very sensitively on the exact degree of automation we predict; a little more or a little less would not change the occupational picture much.

#### THE AUTOMATION OF MANAGEMENT

How far and how fast can we expect management functions—the large miscellany of management activities involving decision-making, problem-solving, and just plain "thinking"—to be automated? Decision-making, in the broad sense, involves much more than the final choice among possible courses of action. Discovering and defining problems, elaborating courses of action, and making final choices are stages in the decision-making process. When the term *decision-making* is used, we generally think of the third stage, but the first two account for many more man-hours of effort. Much more management effort is allocated to attention-directing functions and to the investigation, fact-gathering, design, and problem-solving involved in developing courses of action than to the process of selection. Decision-making, defined in this broad way, constitutes the bulk of managerial activity.

The problems that managers at various levels in organizations face can be classified according to how well structured, how routine, how cut-and-dried they are when they arise. On one end of the

continuum are highly programed decisions: routine procurement of office supplies or pricing standard products, for example. On the other end are unprogramed decisions: basic, once-for-all decisions to make a new product line, strategies for labor negotiations on a new contract, or major styling decisions. Between these two extremes lie decisions with every possible mixture of programed and non-programed, well-structured and ill-structured, routine and non-routine elements.

There is undoubtedly a rough, but far from perfect, correlation between a manager's organizational level and the extent to which his decisions are programed. We would expect the decisions that the president and vice president face to be less programed, on the average, than those faced by the factory department head or the factory manager.

We are now in the early stages of a technological revolution of the decision-making process. That revolution has two aspects, one considerably further advanced than the other. The first aspect, concerned largely with decisions close to the programed end of the continuum, is the province of the new field called *operations re-*



"Just enough to tide me over an inferiority complex."

*search or management science*. The second aspect, concerned with unprogramed as well as programed decisions, is the province of a set of techniques that are coming to be known as *heuristic programming*.

### **Operations Research**

Operations research attempts to apply mathematics and the capabilities of modern electronic computers to business decision-making. By now it is clear that the attempt is going to be highly successful. Important areas of business and engineering decision-making have yielded to these techniques, and the area of possible and actual application continues to grow. Here are a few examples:

- Managers make a whole series of decisions to control inventory and production: purchasing decisions, setting the production rate and product mix, ordering stock for warehouses, shipping decisions, and so on. Several alternative mathematical techniques are now available for making such decisions. These techniques have been more or less extensively tested in practical situations, and they are being used in day-to-day decision-making in a number of companies. The evidence seems convincing that, in most situations, decisions of these kinds can now be made far better by using operations research techniques and virtually eliminating managerial "judgment."
- The injection of such mathematical techniques into the clerical processes involved in procurement, production control, and filling customers' orders can permit virtually complete automation of this flow in many situations, with the removal of both clerical and low-level management participation from the day-to-day activity. Customers' orders can be received and filled, the customer invoiced, orders placed on the factory, and raw-material stocks replenished—all untouched by human hands and unthought of by human decision-makers.
- Mathematical techniques for detailed scheduling of factory production, while less far advanced than the techniques just described, will almost certainly have reached within five or ten years the point where scheduling can also be completely automated, both in its clerical and in its decision-making aspects.

- In the early years of the computer, one of its main applications was to relieve engineering organizations of the bulk of routine calculations in design. Within the past three or four years, we have discovered how the computer can also take over the design synthesis job in many situations that were complex enough to require the services of college-trained engineers. Computers can now take customers' orders for many types of electric motors, generators, and transformers, synthesize devices that meet the design specifications, and send the manufacturing specifications to the factory floor—again, untouched by human hands.
- Computers, programmed to carry out linear programming calculations, are now widely used to determine product mix for oil refineries and formulas for commercial feed mixes.

The plain fact is that a great many middle-management decisions that have always been supposed to call for the experienced human judgment of managers and professional engineers can now be made at least as well by computers as by managers. Moreover, a large part of the total middle-management job consists of decisions of the same general character as those that have already yielded to automation. The decisions are repetitive and require little of the kinds of flexibility that constitute man's principal comparative advantage over machines. We can predict with some confidence, then, that persons making such decisions will constitute a much smaller fraction of the total occupied group within a few years than they do now.

### **Potentialities of Computers**

The mathematical and computing techniques for making programmed decisions replace man, but they usually do not simulate him. That is to say, a computer scheduling a refinery does not make the same calculations that would be made by an experienced refinery scheduler—even if it comes out with a very similar solution.

This fact has led to some misconceptions about the nature of computers and their potentialities. "Computers are just very speedy morons for carrying out arithmetic calculations," it is often said. "They only do what you program them to do." These statements belong to that class of half-truths that are important just because their implications are so misleading.



Computers are very general devices capable of manipulating all kinds of symbols—words as readily as numbers. The fact that computers generally do arithmetic is a historical accident. Most successful research has been carried out in the past five years on the use of computers for processing nonnumerical information.

Computers behave like morons only because we are just beginning to learn how to communicate with them in something better than moronic language. There now exist so-called compiling techniques (e.g., FORTRAN) that instruct computers in general language very similar to the ordinary language of mathematics. Compiling techniques of almost comparable power have been developed for nonnumerical computing.

Computers do only what you program them to do, but (1) you can program them to behave adaptively, and (2) you can program them to improve their own programs on the basis of their experience—that is, to learn. Hence, the more accurate statement is: Computers do only what you program them to do in exactly the same sense that humans do only what their genes and their cumulative experiences program them to do. This assertion leaves little room for free will in either computer or human, but it leaves a great deal of room in both for flexible, adaptive, complex, intelligent behavior.

It has now been demonstrated that computers can be programmed to solve relatively ill-structured problems by using methods very similar to those used by humans in the same problem-solving situations: by highly selective trial-and-error search, using all sorts of rules of thumb to guide the selection; by abstracting from the given problem and solving first the abstracted problem; by using analogy; by reasoning in terms of means and ends, goals and subgoals; by adjusting aspirations to the attainable. There is no longer reason to regard phenomena like "judgment" and "insight" as either unanalyzable or unanalyzed, for, in some forms at least, these phenomena have been simulated—computers have exercised judgment and exhibited insight.

### ***Machines that Reason***

Computer programs that handle nonnumerical tasks, use humanoid problem-solving techniques (instead of the systematic algorithmic

techniques of classical mathematics), and sometimes include learning processes, are called *heuristic programs*. They incorporate, in their processes, one or more aspects of what has been called "the art of plausible reasoning"—an art that guides us through the numerous, diverse, ill-structured decisions of everyday life.

The engineering design programs mentioned earlier are really heuristic programs, for they involve inductive reasoning. Heuristic programs have now been written for such tasks as playing checkers, playing chess, finding proofs for geometry theorems and for theorems in elementary symbolic logic, solving trigonometric and algebraic identities, balancing a factory assembly line, composing music (the ILLIAC Suite), and memorizing nonsense syllables. One program, the General Problem Solver, while not as general as its name may suggest, is entirely free from reference to any particular subject matter and is, in fact, a quite flexible scheme for reasoning in terms of goals and subgoals about any subject.

The microcosm of chess may appear far more structured and programed than the macrocosm of the everyday world. Perhaps it is, although the point could be argued. However that may be, the microcosm of chess is sufficiently complex, sufficiently rich in alternatives, sufficiently irregular in structure that it poses to the problem-solving organism or mechanism the same *kinds* of difficulties and requirements that are posed—perhaps in higher degree—by ill-structured problems in general. Hence, the fact that chess programs, theorem-proving programs, music-composing programs, and a factory-scheduling program now exist indicates that the conceptual mountains that barred us from understanding how the human mind grapples with everyday affairs have been crossed. No major new ideas will have to be discovered to enable us to extend these early results to the whole of human thinking, problem-solving, decision-making activity. We have every reason to believe that within a very short time—perhaps ten years or less—we will be technically able to produce computers that can grapple with and solve at least the range of problems that humans are able to grapple with and solve.

### ***The Economic Aspect***

If the technical prediction is correct, what about the economics of the matter? Again, we must apply the doctrine of comparative

advantage. To what extent, in 1985, will managers and other humans be occupied in thinking about and solving ill-structured problems, as distinct from doing other things?

On this point we can only hazard some guesses. First, man will retain a greater comparative advantage in handling ill-structured problems than in handling well-structured problems. Second, he will retain a greater advantage in tasks involving sensory-manipulative coordination—"physical flexibility." It would follow then, that a larger part of the working population will be blue-collar workers, and a smaller part will be scientists and executives—particularly of the staff variety. The amount of shift in this direction will be somewhat diminished by the fact that, as income and general productivity rise, the demand for work involving ill-structured problem-solving will probably increase more than the demand for work involving flexible manipulation of the physical environment. The demand for psychiatric work will increase more rapidly than the



"According to my analyst . . ."

demand for surgical work—but the rate of automation of the former will be much greater than the rate of automation of the latter.

### **THE MANAGER'S JOB—1985**

Managers are largely concerned with supervising, with solving well-structured problems, and with solving ill-structured problems. We have predicted that the automation of the second of these activities—solving well-structured problems—will proceed extremely rapidly; the automation of the third—solving ill-structured problems—moderately rapidly; and the automation of supervision, more slowly. However, we have also concluded that, as less and less work becomes man-paced and more and more becomes machine-paced, the nature of supervision will undergo change. There is no obvious way to assess quantitatively all these cross-currents and conflicting trends. We might even conclude that management and other professional activities, taken collectively, may constitute about the same part of the total spectrum of occupations a generation hence as they do now. But there is reason to believe that the kinds of activities that now characterize middle management will be more completely automated than the others, and hence will come to have a smaller part in the whole management picture.

### ***Other Dimensions of Change***

There are other dimensions for differentiating management and professional tasks, of course, besides the one we have been using. It is possible that if we described the situation in terms of these other dimensions, the change would appear larger.

In future years, for example, the manager's time perspective will be lengthened. As automated subsystems take over the minute-by-minute and day-by-day operation of the factory and office, the humans in the system will become increasingly occupied with preventive maintenance, with system breakdowns and malfunctions, and—perhaps most important of all—with the design and modification of systems. The automatic factory will pretty much run itself; executives will have less excuse than they now have to let the emergencies of today steal the time that was allocated to planning for the future. Of course, planning will not be a machineless function—it will also be carried out by man-machine systems, but

with perhaps a larger man component and a smaller machine component than day-to-day operations.

Does this mean that executives will need a high level of technical competence in the engineering of automated factories or data-processing systems? Probably not. Most automation calls for increased technical skills for maintenance in the early stages; but the further automation proceeds, the less those who govern the automated system need to know about the details of its mechanism. The driver of a 1960 automobile needs to know less about what is under the hood than the driver of a 1910 automobile. The user of a 1960 computer needs to know less about computer design and operation than the user of a 1950 computer. The manager of a highly automated 1985 factory will need to know less about how things are actually produced than the manager of a 1960 factory.

Similarly, we can dismiss the notion that computer programmers will become a powerful elite in the automated corporation. It is far more likely that the programming occupation will become extinct than that it will become all-powerful. More and more, computers will program themselves, and direction will be given to computers through the mediation of compiling systems. Moreover, the task of communicating with computers will become less and less technical as computers come—by means of compiling techniques—closer and closer to handling the irregularities of natural language.

Managers will be called on, as automation proceeds, for more of what might be described as "systems thinking." To work effectively, they will need to understand their organizations as large and complex dynamic systems involving various sorts of man-machine and machine-machine interactions. For this reason, persons trained in fields like servomechanism engineering or mathematical economics, accustomed to dynamic systems of these kinds and possessing conceptual tools for understanding them, may have some advantage, at least initially, in operating in the new world.

#### **THE BROADER SIGNIFICANCE OF AUTOMATION**

These two predictions—that we will have the technical capability by 1985 to manage corporations by machine, but that humans will probably be engaged in roughly the same array of occupations as they are now—are reassuring.

Acquiring the technical capacity to automate production as fully as we wish, or as we find economical, means that our per capita capacity to produce will continue to increase far beyond the point where any lurking justification will remain for poverty or deprivation. We will have the means to rule out scarcity as mankind's first problem and to attend to other problems that are more serious.

Since, in spite of this increased productivity, the occupations that humans will find in the corporation of 1985 will be familiar ones, we can dismiss two fears: the fear of technological unemployment, and the "R.U.R. fear"—the fear that many people feel at the prospect of fraternizing with robots in an automated world. Fraternize we shall, but in the friendly, familiar way that we now fraternize with our automobiles and our power shovels.

Having dismissed, or dealt with, these two issues, we shall be better prepared to face the more fundamental problems of that automated world. These are not new problems, nor are they less important than the problems of scarcity and peace. But they are long-range rather than short-range problems, and hence seldom rise to the head of the agenda as long as there are more pressing issues still around. Three of them in particular are going to receive a great deal of attention as automation proceeds: developing a science of man, finding alternatives for work and production as basic goals for society, and reformulating man's view of his place in the universe.

### **A Science of Man**

We have seen the potentialities of the computer and of heuristic programing as substitutes for human work. The research now going on in this area is equally important for understanding how humans perform information-processing tasks—how they think. That research has already made major progress toward a psychology of cognitive processes, and there are reasons to hope that the potential of the new tools is not limited to cognition but may extend to the affective aspects of behavior as well.

We can predict that in the world of 1985 we shall have psychological theories that are as successful as the theories we have in chemistry and biology today. We shall have a pretty good understanding of how the human mind works. This has obvious and fundamental consequences for both pedagogy and psychiatry; we

may expect very rapid advances in the effectiveness of our techniques of teaching and our techniques for dealing with human maladjustment.

### **Social Goals**

The continuing rise in productivity may produce profound changes, in addition to those already caused by the Industrial Revolution, in the role that work plays in man's life and among man's goals. It is hard to believe that man's appetite for gadgets can continue to expand at the rate required to keep work and production in central roles in the society. Even Galbraith's proposal for diverting expenditures from gadgets to social services can only be a temporary expedient. We shall finally have to come to grips with the problem of leisure.

In today's society, the corporation satisfies important social and psychological needs in addition to the needs for goods and services. For those who do well in managerial careers, it satisfies needs for success and status. For some of these men and for others, it is one of the important outlets for creativity. In a society where scarcity of goods and services is of little importance, those institutions, including the corporation, whose main function is to deal with scarcity will occupy a less central position than they have in the past. Success in management will carry smaller rewards in prestige and status than it now does. Moreover, as the decision-making function becomes more highly automated, corporate decision-making will perhaps provide fewer outlets for creative drives than it now does. Alternative outlets will have to be supplied.

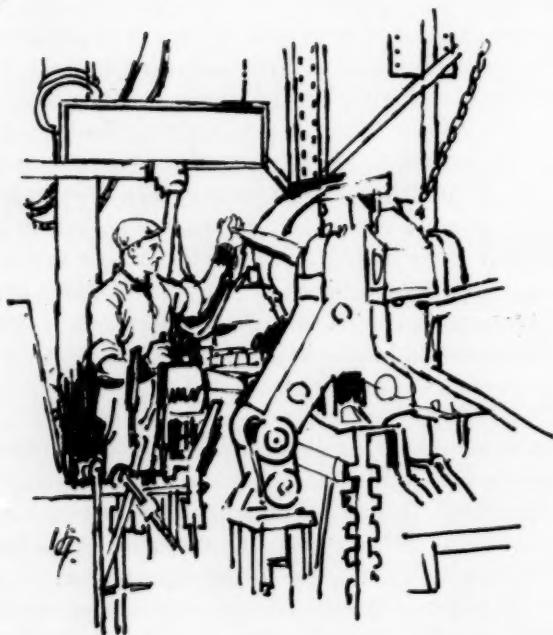
### **Man in the Universe**

It is only one step from the problem of goals to what used to be called "cosmology" and is now referred to by psychiatrists as the "identity crisis." The developing capacity of computers to simulate man—and thus both to serve as his substitute and to provide a theory of human mental functions—will change man's conception of his own identity as a species. The definition of man's uniqueness has always formed the kernel of his cosmological and ethical systems. With Copernicus and Galileo, he ceased to be the species located at the center of the universe, attended by sun and stars. With Darwin,



he ceased to be the species specially created and specially endowed by God with soul and reason. With Freud, he ceased to be the species whose behavior was governable by conscious, rational mind. As we begin to produce mechanisms that think and learn, he has ceased to be the species uniquely capable of complex, intelligent manipulation of his environment.

I am confident that man will, as he has in the past, find a new way of describing his place in the universe—a way that, however different from the present one, will satisfy his needs for dignity and for purpose. ♦



## Purchasing Manuals

*(Continued from page 33)*

6. Discounts lost through payment delays.
7. Failure to maintain specimen signature cards of employees authorized to approve disbursements.
8. Incomplete purchase orders.
9. "Confirming orders" specifying "Advise Price."
10. Purchases by unauthorized personnel.

The primary advantage of an internal purchasing manual, of course, is the direct benefit of improved departmental cooperation and efficiency. During the initial preparation of the manual, it becomes necessary for a company to face up to all the skeletons in its closet. It must resolve such controversial issues as just who can commit the company, who has authority to contact vendors, who has the right to order or revise purchase orders, and what departments can request changes in delivery or quality. Once this task has been accomplished, a better atmosphere for achieving the goals of the company is created.

### PREPARING THE MANUAL

The best way to begin preparing a manual is to obtain backing from the chief executive of the company. Not only does this indicate official approval of the project, but it insures that each department will give its time and cooperation to the project.

The foreword of one purchasing manual (from Republic Aviation Corporation) indicates the way top management can convey a sense of the importance of written purchasing policies:

The procurement of materials, parts, and services results in the expenditure of approximately half of this company's total dollar receipts. Therefore, the importance of the purchasing function requires that certain broad policies for procurement be set forth by Republic's management.

Procurement, in its broadest sense, encompasses all departments of the company that have a part in the design, manufacture, or use of the materials, articles, or services required for manufacture of our products. It is only through the cooperation of all these departments with the purchasing department and vice versa that the purchasing department can make full and productive use of its ability to effect a substantial reduction in the cost of our end product.

Not every chief executive will immediately recognize the value of written policy statements, of course. In one instance, where it was impossible to obtain approval because of the chief executive's "wait and see" attitude, the vice president of purchasing developed a purchasing policy manual on his own. He then submitted his recommendations to the president, asking whether they conflicted in any way with corporate objectives. Although preparation of this manual was accomplished under difficult circumstances, the president was so pleased with the results that he requested all other departments in the company to develop written statements for their procedures.

What should be included in the internal purchasing manual? The list on the facing page is based on an index prepared for a purchasing manual kit by F. Albert Hayes, consulting editor of *Purchasing* magazine. Naturally, not all the topics will apply to every company, and some organizations will want to add special



"I wish you wouldn't call me at the office, Helen—  
I haven't been hired yet."

subjects that are not included. But this index contains the subjects that are common to most purchasing operations, and it provides an excellent check list to insure that the manual is complete.

If the manual of another company engaged in the same type of

### CHECK LIST FOR PURCHASING MANUALS

Adjustments	Objectives of purchasing division
Advertising and art work, purchase of	Offices of purchasing division
Bids, competitive	Organization chart
Bids, low	Petty cash purchases
By-products, sales of	Prices, disclosure of
Catalogs, request for	Prices, effect on selecting sources of supply
Commitments, authority to make	Prices, securing of
Community relations	Principles of purchasing practice
Complaints, interdepartmental	Procurement, definition of
Conflict of interest	Professional services
Contracts (See Commitments)	Public relations
Contract form, vendor sales	Purchase orders (See Commitments)
Correspondence with vendors	Reciprocity
Credit	Records, examination of
Designs, purchase of	Relations of purchasing with other divisions and departments
Discounts	Rentals
Emergency purchases	Resale items, purchase of
Employees, buying for	Responsibilities of purchasing division
Entertainment	Responsibilities, other departments re vendor contracts
Equipment, purchase of (See Commitments)	Sales contract form
Equipment, sales of	Salesmen, receiving of and interviewing
Equipment, selection of	Samples, confirming orders
Food, purchase of	Samples, free
Funds, solicitation of	Samples, requests for
Functions of purchasing division	Scope of purchasing division
Gifts	Scrap, sale of
Insurance, purchase of	Sources of supply, selection of
Interviews, arranging	Specifications
Inventory, levels of	Standards of purchasing practice
Invoices	Storage space
Leases	Surplus material, sale of
Legal	Tax
Limitations of purchasing division	Traffic
Loans	Trial lots
Local purchases	Vendor contacts
Materials—	Vendor sales contracts
Observation of use	Vendor, selection of
Damaged, sales of	Vendor qualifications
Potential needs	Vendor relations
Purchase of (See Commitments)	Warehouse space
Selection of	Waste, sale of
Make or buy	
Negotiations	

business is used as a guide, the rules and procedures must, of course, be adapted to fit the new situation, which is invariably different. Some paragraphs may have to be deleted, others more fully interpreted, to obtain the maximum benefit.

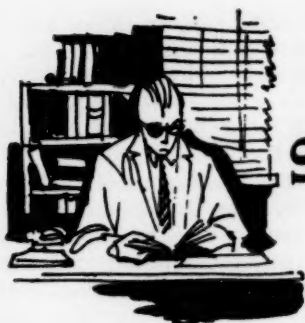
When preparing a welcome manual, many companies request their vendors to participate in its preparation. Not only is the vendor flattered because his counsel is sought, but the company gains an objective perspective on where its policies or procedures are weak and where policy revisions must be made.

Some companies establish committees from each department, both for preparation of the manual and for later policy review and revision. Whether this is done or not, the purchasing policy manual cannot be the work and ideas of the purchasing department alone. At some point, approval must be obtained from other departments. The groundwork may be laid by purchasing, but soliciting the cooperation and help of others will insure the willing acceptance of mutually beneficial policies.

It goes without saying that no manual will achieve its purpose if it seems to be designed to build up the authority of purchasing or to make the department "look good" in the eyes of the boss. If this point is kept in mind by those charged with the preparation of the manual, and if people outside the purchasing department are asked whether some parts of the written policies sound "too heavily weighted in favor of purchasing," resentment and antagonism to the project can be avoided.

### **TOWARD IMPROVED RELATIONS**

Purchasing manuals have already proved their worth in many companies, and it is undoubtedly true that many more could profit by undertaking to state their policies clearly, consistently, and in writing. In a small company, where purchasing, production scheduling, inside sales, and design engineering are handled by two or three individuals or by one department, a separate purchasing manual is probably unnecessary. But once a company has grown to a size where conflicts—either inside or outside the company—begin to develop, spelling out the policies and procedures of purchasing can effect a substantial saving of money, time, and supplier good will. ♦



## SURVEY OF BOOKS FOR EXECUTIVES

### Obsolescence as a Way of Life

**THE WASTE MAKERS.** By Vance Packard. David McKay Company, Inc., 119 West 40 Street, New York, 1960. 340 pages. \$4.50

*Reviewed by Leo Teplow\**

In *The Waste Makers*, Vance Packard returns to the attack on marketing practices and philosophies that was the basis of the first of his best-sellers, *The Hidden Persuaders*.

In his new book he charges the men responsible for marketing the prodigious flow of the American production machine with converting the American people into discontented consumers. This discontent, he asserts, is deliberately cultivated, in order to get people to discard what they have and to buy something more

attractive. In the process, a great many useful commodities and possessions are junked, even though they may still serve to satisfy human needs.

In the course of his argument, Packard relies on a tremendous amount of assorted evidence, some of which is rather thin. One cannot escape the impression that his justified concern about the waste of our resources has impelled him to find a scapegoat. Having decided that merchandisers (and producers who do their own merchandising) are responsible for this waste, he falls back on selected arguments, comments, and certain business practices to justify his conclusion, without any attempt to weigh the merits, the impact, or the representative character of the practices and comments on which he relies.

One of the most serious and least documented charges he makes against the business community is that planned obsolescence is a way of life for a substantial part of American industry. He criticizes business for introducing a better product that makes the previous model less desirable and

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\* Assistant Vice President, American Iron and Steel Institute, New York.

hence likely to be replaced before it wears out. To this reviewer, however, it seems that business would be open to even sharper criticism if it failed to improve on its products. Nor would our position in international trade be an enviable one were we to stand still while the rest of the world went forward in the production of better products with more appeal to more people.

An even more serious charge is Packard's assertion that many companies intentionally make products that will wear out or break down in a given period of time, so that consumers have to buy new ones. But he produces very little evidence in support of this contention—one that no responsible writer should make unless he has substantial facts to back it up.

Packard is also concerned about the obsolescence of desirability—the changes in style that make the previous model less desirable. But it is doubtful whether Eve had to have a huckster to persuade her that she needed a change in adornment. Nor are changes in style, fashion, or model peculiar to the business world; changes in taste and ideas take place in art, philosophy, literature, and, in fact, every field of human endeavor. It is hardly fair to attribute this universal desire for change to the machinations of American marketing executives.

Packard seems to be compelled to use all kinds of far-fetched arguments in order to reinforce his charge that business and its marketing methods are responsible for creating waste. Thus, on page 121, he cites as evidence of "planned obsolescence creation going forward" the campaign by

United States Steel "to change American ideas about the right size for a bed. It hoped to swing North Americans away from the long-standard 54-inch double bed to oversized and twin beds. United States Steel was reported prepared to spend a million dollars to put consumers and retailers into a mood to yearn for larger beds."

Actually, instead of being a diabolical plan to get American consumers to throw away their old beds, this campaign was based on the recognition that people are getting taller and increasingly require beds that are larger than the former standard. Nor, it may be added, are twin beds an invention of United States Steel. For those who are interested in pursuing the subject further, there is a rather lively literature on the impact on marital bliss of double beds vs. twin beds.

Mr. Packard's obsession with the seamy side of marketing seems to have resulted in an anti-business bias that creeps out now and then. Thus, in speaking of U.S. oil reserves, he states that the oil producers are complacent about the growing inadequacy of proved reserves because "to them, the important thing is the prospect of ever-greater demand for oil. They can supply it by processing coal or shale or digging ever-deeper holes, all at higher cost, of course. They will have the nation over a barrel." Why increasing the costs of producing oil should make it possible for American oil companies to "have the nation over a barrel"—presumably an oil barrel—is not at all clear. It does indicate, however, a deep-felt suspicion against oil producers that encourages Mr. Packard to believe the worst.



It is a pity that Mr. Packard has not more carefully screened his material and that he has not made out a better case against the waste that does take place in American life—the waste of goods, waste of commodities, and waste of time, and the overindulgence in the material aspects of life. He has permitted a splendid opportunity to go by the board by concentrating his attack on producers and distributors, rather than on the prevalent morality and philosophy of our time. He does not give the American consumer very much credit for choice or self-determination. His conclusion is that “millions of consumers are manipulated, razzle-dazzled, indoctrinated, mood-conditioned, and flim-flammed.” This reviewer cannot accept this as a true picture of the American people. They have more horse sense than to accept inane commercials, or to be guided in important matters by obvious propaganda for this, that, or the other product. If they are wasteful, it is because it is often cheaper to buy a new product than to repair an old one. Since practically all repairs have to be done by hand, the economics of a high-wage society dictate that in many cases a repair will not be made, unless the owner of the equipment can do it himself.

Had Vance Packard entitled his book *The Wasters* rather than *The Waste Makers*, he could have made an important contribution toward correcting the average consumer's overindulgence in material possessions. But by directing his fire at the men who make and sell the goods that Americans buy, he has turned out a warmed-over version of *The Hidden*

*Persuaders* without the novelty, the freshness, or the validity of the social criticism put forward in his first and best book.

## Management at the Top

**THE MANAGER'S JOB.** Edited by Robert Teviot Livingston and William W. Waite. Columbia University Press, 2960 Broadway, New York, 1960. 459 pages. \$10.00.

*Reviewed by Melvin H. Baker\**

The 32 essays in this volume have been selected from papers presented at the Columbia University Utility Management Workshops over the past five years by top managers from leading utility companies, management consultants, and professors of business administration. In addition to offering thoughtful analyses by the editors, the collection covers a wide range of practical operating problems.

While the aim of the workshops was to improve management in the operation of utilities, the papers reprinted here clearly define the qualifications necessary for a company president in any line of industry. The treatment of human relations, communications, and management devel-

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\* Chairman of the Board, National Gypsum Company.

opment is particularly thorough and, in my judgment, applicable to any kind of business.

The book is divided into six parts, each devoted to one segment of management. The titles of the subjects covered—The Job of the Top Manager, The Job of Any Manager, The Manager and Human Relations, Communication and Management, Development of Managers, and Decision Making—will, perhaps, sufficiently indicate its scope. The student of industrial management will find that each section covers a wide field about which there is much to learn. The discussions bring into sharp focus many approaches that should lead to the better management that is essential in this atomic age.

Robert Livingston and William

Waite, who edited the papers, are both professors of engineering at Columbia University. Perhaps their technical background accounts for the great amount of detail contained in their introductory remarks. The patient reader will find, however, that they have done an excellent job of selecting papers that clearly point up the problems at issue.

Though, as the editors aptly comment, "Many of the old ways are no longer good ways—what is needed today is courageous, conscientious, and confident industrial leadership," this is not an "inspirational" book. It is a study in specifics, and deserves careful reading by all managers who want to be still better managers in the era of heightened industrial competition that looms ahead.

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